FEDERAL CROP INSURANCE PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURE

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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FEDERAL CROP INSURANCE PROGRAM

MONDAY, OCTOBER 3, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND AGRICULTURE,
COMMITTEE ON SMALL BUSINESS,
Tifton, GA.

The subcommittee met, pursuant to notice, at 9:05 a.m. at Abraham Baldwin College, Tifton, GA, Hon. Charles Hatcher (chairman of the subcommittee) presiding.

Present: Chairman Hatcher and Representative Ray.

Chairman HATCHER. Good morning to all of you. I am Charles Hatcher, the chairman of the Small Business Subcommittee on Energy and Agriculture. I would like to thank all of you for the interest you demonstrate by being here for the hearing regarding crop insurance this morning.

I would like to thank Dr. James Burran and others here at Abraham Baldwin College who have been gracious enough to allow us to use this auditorium for the forum today.

I would also like to welcome you, Congressman Ray, to the second district and Tifton. Thank you for inspiring this hearing by talking to me about some inquiries you had from farmers and others in your district. I had similar inquiries myself.

As all of you know, we are assembled here to discuss means which may be used to increase producer participation in the Federal Crop Insurance Program. Since the reforms of 1980, participation in the program has increased. It has even doubled, but apparently we still do not have universal coverage, and we still have had to have a drought bill to assist farmers when we have had drought conditions just this year.

We have questions among producers in my district, and I think elsewhere, as to whether it is economically feasible for some of the commodities they grow. They want to see some changes in the program.

Recently, the House of Representatives adopted House Resolution 5325 which is a bill which will establish a 25-member commission to identify ways to improve the operation of the Federal Crop Insurance Program. As one of the original cosponsors of that resolution, I look forward to following the work of the commission and getting its recommendations.

On a more local note, we are here today to listen to problems, suggestions, or ideas that you, the individual producer, the banker, the insurance agent, the agribusiness person, or others may have regarding this program. I look forward to gathering the testimony today and taking it back to Capitol Hill with Richard, so that we

can put it to good use in helping develop an even better crop insurance program for the country.

With that opening statement, I would like to recognize my colleague and the ranking majority member on the subcommittee, Richard Ray, for any comment you would like to make at this time.

Mr. RAY. Thank you, Mr. Chairman, and I would like to thank you for holding this hearing. I would like to say it was not easy to put this hearing together at this time of year. Recently in meeting with a group of agricultural advisers and farmers in Dooly County, the main topic of conversation was the Federal crop insurance problems that are facing farmers in this day and time. I had suggested that perhaps we would have a meeting in February, but they said no; we need to focus on it right now before the Congress adjourns. So, we were able to do this today at ABAC.

I am going to submit my statement for the record, but I would just like to first of all focus a little bit on one of the problems that I know will be coming up this morning, and that is that farmers think that it is unfair to include a producer's yields in good and bad years to get an average yield on which to base the insurance payments. Because there have been several bad years, the average yield has gotten lower. Farmers would like to see changes in how the yields are figured. They also want the average yields to be figured differently on dry land and irrigated crops for the same farmer. Farmers say that if the same crop is partly under dry land and partly under irrigated land, it is exactly like two separate crops and should be figured like two separate crops in that respect.

Farmers are concerned that the original intent of the Federal Crop Insurance Program to provide insurance to the farmer in a fair and equitable manner is not being adhered to in the program today.

In my final remarks, just let me say that agriculture is doing some better because of the legislation that we have in place today that is helping about half of the farms who have survived, and the agricultural people stay in business. It is very important, in my opinion, that we provide what is necessary in the Congress to keep the survivors alive.

I was distressed to read just this last week where our wheat crop this year will be less than the amount that we will consume in this country, meaning, I suppose, that we will be importing wheat into America for 1989.

So, Mr. Chairman, it is my pleasure to be here this morning. Agriculture is very important to me. You and I work very closely together, and although I am not on the Agriculture Committee, you know how strongly I am interested in supporting agriculture. It is absolutely the priority industry in America today because it keeps this country's food supply lines open from the farms to the supermarkets. So, I am pleased to be here today.

Chairman HATCHER. Thank you very much, Richard.

The first witness today will be Mr. Dave Gabriel, who is the assistant manager for Program Administration with the Federal Crop Insurance Corporation located in Washington. Mr. Gabriel, I would like to welcome you and thank you for being here with us today.

TESTIMONY OF DAVID W. GABRIEL, ASSISTANT MANAGER, PROGRAM ADMINISTRATION AND ACTING DEPUTY MANAGER, FEDERAL CROP INSURANCE CORPORATION

Mr. GABRIEL. Thank you. Mr. Chairman, members of the subcommittee, my name is David W. Gabriel. I am the assistant manager for Program Administration and the acting deputy manager——

Chairman HATCHER. Let us get that mike straight so that we can hear him out in the audience.

[Pause.]

Mr. GABRIEL. Thank you. I am the assistant manager for Program Administration and the acting deputy manager for the Federal Crop Insurance Corporation, which I will refer to from time to time as FCIC. I appreciate the opportunity to visit with you today and to discuss the role of crop insurance in the economic life of rural communities and the need for increasing participation in this vital program.

The FCIC is a corporation within the Department of Agriculture providing insurance protection against catastrophic crop production losses for American producers. When the Federal Crop Insurance Act was amended by the Congress in 1980, it was the stated objective to substitute participatory risk management by producers for the ad hoc disaster assistance payment programs which characterized earlier periods. Since operations were expanded under the authority of the 1980 amendments, the FCIC has doubled the number of crops protected and greatly expanded acreage insured.

At the present time the FCIC provides protection for 50 crops with insurance programs available in all 50 States. We provide protection for crops for which price support is made available by the Commodity Credit Corporation wherever they are grown in the United States. We also provide almost universal protection for soybeans. In addition, we make insurance available on other crops from potatoes to citrus through nearly 20,000 county crop programs across the country.

It should be noted that the crop insurance program is not a make whole device. The Congress made clear in the legislation, by limiting protection to production losses and by maximizing the Federal support for the program at 65 percent of losses, that it was providing catastrophic loss protection. While producers may desire greater protection, or protection specifically linked to economic loss, such schemes are not within the mandate of the FCIC.

The crop insurance program, through the safety net which it provides against catastrophic loss of production, assures individual producers of a predictable economic base. This approach is of course beneficial to both the producers and to the economic base of the community in which he lives.

In recent years we have, however, not achieved the sustained growth in market penetration which we and the Congress had hoped to see. We share the concern of the committee and the Congress over the difficulty in expanding the reach of the program to the benefit of the economic life of farming communities.

We recognize that insurance protection has a ripple effect through the agricultural community. The need for such protection is abundantly clear in years such as 1988, when the vitality of

entire agricultural communities is threatened by the loss of the economic base provided by harvested crops. We are committed to improving our outreach so as to provide the basis for economic stability as a result of a measure of assured income even in the face of disastrous crop losses.

We understand the committee's concern for increased participation among producers in the crop insurance program. The FCIC has taken up the challenge of aggressively reviewing and enhancing its marketing efforts. During the past few years, the FCIC began the publication of a brochure on the crop insurance program which it makes available through lenders, insurance agents, and USDA agency officials and their offices in local communities. For 1989 we are planning an initial printing run of 1 million brochures, and these should begin making their way into the system within the next few weeks. We continue to participate in radio and television advertising of a generic nature, and place articles which highlight the crop insurance program in various agricultural publications throughout the United States.

The FCIC is also engaged in a substantial cooperative effort with the Extension Service of the USDA to provide general and individual financial planning assistance to producers. Many farmers rely on their local Extension Service for help in reviewing their operations and in assessing their economic requirements. For some time now we have had a Cooperative Extension Service Advisory Group working on integrating the crop insurance risk management strategy into individual producer plans. This fall, the FCIC and the Extension Service are conducting a national meeting in Kansas City to further these efforts and to review the range of initiatives for assisting producers in assessing their financial planning strategies. We are encouraged by these efforts and will continue to contribute to this work.

We are presently exploring various conclusions and recommendations contained in a report to the Congress by the General Accounting Office on the participation issue. We should point out that with more than 12,000 insurance agents working for sales and service contractors, commonly called master marketers, and insurance companies selling crop insurance reinsured by FCIC, there is a substantial crop insurance presence throughout rural America. Activating this force is a major goal of FCIC. For the coming year, it is the intent of the Corporation to explore ways to establish goals for our delivery partners, both Federal and reinsured, to encourage additional marketing efforts and increased participation. Obviously, one of the consequences of this year's tragic drought will be a renewed interest in, and purchase of, crop insurance.

But we need to reach beyond these efforts, and we are attempting to do so. For the third year in a row, the FCIC will be furnishing each Member of the Congress with a copy of the 1989 Guide to Crop Insurance brochure which explains the program, and a list of the crops and counties which may be insured in each of their States. We hope that making such information available will encourage Members to consider drawing their agricultural constituents' attention to this risk management program. We certainly welcome the opportunity to explore with you and others additional efforts which we can make to improve our outreach and to utilize

every avenue to draw attention to the subsidized crop insurance program.

Mr. Chairman and members of the subcommittee, we share your concern and we hope that we can work together to find ways to meet the charge contained in our charter: "To promote the national welfare through a sound system of crop insurance." I am pleased to be here to explore the needs of producers in the community and the communities in which they live. If I can answer any questions or furnish any material for your consideration, I shall be happy to do so. Thank you for your interest in crop insurance.

Chairman HATCHER. Thank you again, Mr. Gabriel, for being here. We appreciate your testimony. I have a few questions, and I imagine that Congressman Ray will as well.

During this drought year, of course, we had massive drought legislation to pass both Houses of Congress, and it has been signed into law. I remember in the House Agriculture Committee there was interest in trying to reward, or at least not penalize, those producers who had crop insurance. That is, they should have some special treatment for having had the foresight and having taken it. Can you tell us how that is going to work in actual practice? How will the farmer who had crop insurance and who also participates in the drought relief—how will he fare compared to his neighbor who did not have crop insurance?

Mr. GABRIEL. Mr. Chairman, it is my understanding that first of all the crop insurance payment will be made, and the farmer will also be reimbursed for the disaster assistance up to the value of what his crop would have been. So, he will not be penalized for carrying crop insurance, and, in fact, he will gain by carrying crop insurance.

Chairman HATCHER. As I recall, there is a requirement in the drought bill that if a farmer received benefits under this 1988 Drought Relief bill for a loss in a particular commodity, he will have to purchase crop insurance—I believe the final version says for the next year, for the 1989 crop year for that commodity, is that correct?

Mr. GABRIEL. I believe there are three provisions in that. One is that the county committee may waive.

Chairman HATCHER. Right.

Mr. GABRIEL. Number two, if the rate is more than 25 percent of an increase, he may not be required to carry it. His loss will have to exceed 65 percent for the mandate to carry crop insurance. There are three things there.

Chairman HATCHER. Well I am glad that those are in the final version because I opposed the requirement. I had mixed feelings. I want to expand the use of crop insurance. I think it is a good objective to have it more universal and to not have to depend on ad hoc legislation during periods of drought or years of drought in the country.

On the other hand, I know enough about what is going on in this congressional district to know that for many of our commodities, it is just not economically viable for a lot of our producers. I know very few who carry it on the majority of the commodities that they produce at this time.

So, that does give some leeway there, and it is not just an automatic requirement that they carry crop insurance.

Does the Corporation have a plan to extend coverage of crop insurance to pecans? Have you given any recent thought or study to that?

Mr. GABRIEL. I'm sorry, would you——

Chairman HATCHER. Have you given any thought, or do you have any plans about extending coverage to pecan crops?

Mr. GABRIEL. Yes, sir; we currently are working on coming up with a pecan program. Our board of directors has approved it to be one of the new crops which we will be coming on with. I cannot tell you when, but we are working on it right now, and hopefully it will be ready by 1990, if not before.

Chairman HATCHER. I understand from some checking I have done and from your testimony here today that nationally insured acreage has more than doubled since the legislation in 1980. Yet, from the statistics that I have in Georgia, insured acreage is down about 60 percent from what it was as recently as 1982. I wonder if you have any thought about that? How does Georgia differ, how do our crops differ? Does it have anything to do with irrigation, or what are the factors that would have such significant less coverage in Georgia?

Mr. GABRIEL. Mr. Chairman, I do not think I can answer that question because I am not overly familiar with what has happened down in Georgia. I do know that our program is expanding nationwide, and I will assure you that we will take a look at it, and, in fact, we are studying all areas for participation, to find out what our problems are and to improve them so that we can expand the program.

Chairman HATCHER. Thank you very much. Mr. Ray.

Mr. RAY. Mr. Gabriel, I appreciate you being here today.

Mr. GABRIEL. Thank you, sir.

Mr. RAY. On the second page of your testimony, you mention that Congress made clear in the legislation, by limiting protection to production losses and by maximizing the Federal support for the program to 65 percent of such losses, that it was providing catastrophic loss protection. Now you mention that while producers may desire greater protection or protection specifically linked to economic loss, such schemes are not within the mandate of FCIC.

Could you expand on that just a little bit?

Mr. GABRIEL. Well, the act requires that we cover a maximum of 75 percent of what would be the normal anticipated production. That is the maximum amount that we can insure for. There are three levels, 50, 65 and 75.

Mr. RAY. I see.

Mr. GABRIEL. The 65 percent level is where the full 30-percent subsidy is given.

Mr. RAY. I see. You also say on page 3 that the crop insurance program, through the safety net which it provides against this catastrophic loss of production, insures individual producers of a predictable economic base. This approach is, of course, beneficial to both the producer and the economic base of the community in which he lives.

I would think that some of the farmers in my district might not agree with that. Would you expand on that just a little?

Mr. GABRIEL. I guess I would say that the fact that we can offer coverage up to 75 percent of the producer's anticipated production, that this should give him an opportunity to cover his base.

Mr. RAY. A couple of things that are preventing producers from signing on to the plan is my earlier statement in which I mentioned that farmers think that it is unfair to include a producer's yields in good and bad years to get an average yield on which to base the insurance payments.

For instance, we have been in a severe drought for about 10 years down here, and in the last few years, the soybean yield has dropped, in some cases down to 14–15 bushels per acre, and there is just no incentive at all to insure a crop that is producing just 15 bushels per acre, because the cost of insurance normally does not amount to anything—you are not getting enough money to buy the insurance.

One other problem that I find farmers struggling with about buying Federal crop insurance is that many farmers believe it is not necessary to purchase the insurance and pay that expense for it because of the fact that in the background you have a big disaster safety net back there that is going to pick them up in most cases anyway. So, we have that situation that we are faced with.

Would you have any comments on that, sir?

Mr. GABRIEL. No; other than from what we hear from Congress, is that the disaster payments are not necessarily a guaranteed thing that is going to be coming year after year. They are attempting to phase it out. We, of course, are looking at coverages as to how we can properly insure the producer based on what his normal yield would be. I realize that we have had disasters of drought and this type of thing, but that is part of the producer's history.

Mr. RAY. Of course, I know you are moving to correct that because if a farmer accepts the disaster payment this year, then he has to agree to buy the Federal crop insurance for the next year.

Mr. GABRIEL. That is right; yes, sir.

Mr. RAY. I am sure that some of our other panelists will want to address that to some degree.

Now finally, have you been able to review the 25-member commission which last week in legislation by Congressman Ed Jones passed the House and is over in the Senate this week, to improve the Federal Crop Insurance Program?

Mr. GABRIEL. I am aware of the legislation, yes. Other than that, I have not been involved with it.

Mr. RAY. Do you think that would be a good thing?

Mr. GABRIEL. Yes, sir; very definitely.

Mr. RAY. You mentioned in your statement for 1989 you are planning an initial printing run of 1 million brochures and these should begin to make their way into the system. Now what are these brochures going to say?

Mr. GABRIEL. Well those brochures in essence give an overall review of how the crop insurance program works, what crops the coverage is available in, and it has questions from producers. It just is general knowledge as to how the crop insurance program works.

Mr. RAY. Do you think we have an educational job ahead to do?

Mr. GABRIEL. I think so; yes, sir.

Mr. RAY. Are there any hearings being held around in the agricultural communities of the Nation?

Mr. GABRIEL. Not that I have been involved in, but I am sure there have been some.

Mr. RAY. So, you think that we need to have a better understanding of the Federal crop insurance by the farmers and the producers?

Mr. GABRIEL. That is right; yes, sir.

Mr. RAY. All right, sir. As you know, one purpose for having this meeting here this morning is to focus on the problems from the people who are having the problems. Congress is supposedly going to adjourn the end of this week, so in the beginning of 1989, we will be looking at having hearings in our Agriculture Committees and focusing on these problems by putting legislation hopefully before these committees which will eventually make it out of the Congress and be signed into law.

Would you have any comment on that, sir? Do you think there is need for some adjustment here and there?

Mr. GABRIEL. Well, we appreciate all the input that we can get to improve the program, and certainly we will be taking it into consideration as we come up with improvements for 1990. Right now, the 1989 program is struck.

Mr. RAY. Well clearly—and my final remark here is I do not hear any good words for the program—so clearly we need to focus on the program.

Mr. GABRIEL. All right.

Mr. RAY. Mr. Chairman, I suppose that members of the audience at some point will have an opportunity to ask questions of Mr. Gabriel. Maybe you want to hear from everybody before you——

Chairman HATCHER. I would like to go on through with the panels first. I would like to say thanks again for coming. We are probably going to hear from some of the folks here about what they see as the problems, the way the program is working or not working in south Georgia.

I hope you will be able to hear some of that. Also, we will provide you with a copy of this record so that you will have the benefit of that.

Mr. GABRIEL. Thank you.

Chairman HATCHER. Thank you very much.

At this time, I would like to recognize a couple of folks here. Alan West from Meigs, GA, if you will raise your hand. He works with the subcommittee. Dean Mitchell works in my office in Washington, and he is from Quitman, GA. Raise your hand again in the back. He handles agricultural matters for the Second Congressional District.

Richard, do you have anyone here you would like to recognize?

Mr. RAY. Yes; I do. I would like to say that my agricultural field representative, Arthur White, who is pretty well known by most of the people here, has been in the hospital recently, and is recovering, and will be back to work next week. But this morning, he and I are both represented by Shirley Graham from my middle Georgia office there. Ms. Graham, stand up so people can see you. Thank you.

Chairman HATCHER. I do not know if at this time anyone from Senator Nunn's office is here or Senator Fowler's office. If you are, would you stand up?

[No response.]

Chairman HATCHER. Obviously not.

I would like at this time to recognize Mr. Bob Nash, president of the Georgia Farm Bureau.

TESTIMONY OF ROBERT L. NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION

Mr. NASH. Thank you, Mr. Chairman and members of the subcommittee. Thank you for allowing me to present the view of the Georgia Farm Bureau on the Federal Crop Insurance Program. Realizing what a busy time of year this is in Washington, we especially appreciate you taking the time to hold this hearing on a very critical issue to Georgia farmers and those throughout the country. Georgia Farm Bureau, which presently has over 170,000 members, represents farmers in virtually every commodity, and it is in this mind that I would like to comment briefly on the merits of the program and several areas in which we think it could be improved in order to better serve the needs of our members.

The Federal Crop Insurance Corporation's program provides insurance to farmers to protect them against unavoidable crop losses caused by adverse weather, insects, plant disease, and other natural disasters. This program was designed to be the Nation's primary disaster assistance program, but farmers are not buying crop insurance to the degree originally envisioned for the program, leaving many, and most Georgia farmers, without financial protection against crop losses. Before Federal crop insurance will be used consistently by Georgia farmers several changes must be made not only in the product but also in the administration of the program.

The original intent of the Federal Crop Insurance Program was admirable. In normal times, the successful farmer of today would be utilizing crop insurance as one of the many management tools. In normal times, crop insurance could lead to financial success for the farmer by reducing the adverse financial effects of production losses beyond the control of good producers. However, Mr. Chairman and members of the subcommittee, as you well know, the past 10 years have been anything but normal. Some farmers could optimistically say that they have had 2 good years out of the past 10. Because of this period and for other reasons, the program, as it is presently operating, simply does not fulfill the original intent for most of our Georgia farmers. The bad loss experience of the past 10 years has caused premiums to be too high and benefits, in the event of a loss, not to be reflective of the farmer's actual loss.

The extremely adverse weather that we have experienced over the past decade has contributed to the problems with the Federal Crop Insurance Program in several ways. First, a major problem occurs in determining the actual production history of a certain crop on a farm. As you know, yields are determined on a 5-year basis, dropping the high and low years. When most of the recent years have ended in drought, it is impossible to determine a fair yield. The Georgia Farm Bureau recommends that either some

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type of adjustment be made to adversely affected crop yields in the actual production history or the number of years used to compute the historical yields be greatly increased or use the ASCS proven yields for actual production history. Second, poor conditions greatly increase the farmer's cost of production through irrigation expenses and increased chemical usage. We believe that benefits should be based on the current cost of production in the year of the loss. Let me emphasize that we do not believe that Federal crop insurance should become a replacement for good, sound management, but a management tool to protect the farmer from catastrophic losses that are beyond his control.

Another flaw in the Federal copy insurance policies relates to the combining of a number of farms under one ASCS serial number and requiring a loss on all farms as opposed to allowing each separate farm to stand on its own. Let us look at this problem in a different term. If you own 10 houses and 1 burns down completely, normally you would have an insurance policy on each house and your coverage would replace that loss. But if your 10 houses were insured like 10 different soybean fields would be insured under the present system, you would not receive any benefit for your loss since you only lost 10 percent. Different farms or fields must stand on their own and must be insured separately.

In order to better service the Georgia farmers, the crop coverage must be expanded. Presently, coverage is available for wheat, barley, rye, oats, grain sorghum, tobacco, peanuts, soybeans, cotton, corn, peaches, and apples. Our organization sees a real need to expand the program to cover all crops, including all fruits, pecans, sweet onions, and other vegetables, and forage in every county. The need for this management tool goes beyond the program crops and this change could help tremendously.

In administration, there must be uniformity in the claims adjustments. We see a great disparity in the manner claims are settled. Another management change that would directly strengthen the program is better policing and minimum farm management requirements. Without close supervision there will be continued abuse of the program.

Mr. Chairman and members of the subcommittee, as you are aware, the House recently passed a bill, which we hope the Senate will also soon approve, which creates a 25-member commission to study and recommend improvements in the Federal Crop Insurance Program. We are pleased to see that the commission will be composed of representatives of the insurance industry and producer groups, including Farm Bureau. Intensive studies and hearings such as this one today prove to us that our elected leaders are dedicated to bringing about some needed changes.

In conclusion, the bottom line on the Federal Crop Insurance Program is that it is simply not affordable at the present time for most farmers. The present premiums compared to the possible benefits do not make crop insurance a good practical business decision. We are concerned that Congress, by requiring farmers who receive disaster payments for losses greater than 65 percent to purchase crop insurance, will be requiring the farmers to make a bad management decision.

Our organization supports the Federal crop insurance concept as a management tool, but believes that the changes that we have noted here are necessary to make it workable for Georgia farmers.

I want to thank you for the opportunity to present our views today, and we look forward to working with you any way we can to improve this program.

Chairman HATCHER. Thank you very much, Mr. Nash. You may or may not have thought about this. If you have not, just say so. But do you have any thoughts as to why there seems to be significantly less participation in Georgia than in some other States?

Mr. NASH. Yes, Mr. Hatcher; the reason why many of our farmers are not taking it is when they go up to sign up for it, the yields which they are offered and the protection which they are offered is so low that it is too expensive to take it. It is not worth the effort, not worth the investment to do it.

Chairman HATCHER. Does your experience indicate that most of the farmers in Georgia who are taking crop insurance are the ones who are required to do it by their lender?

Mr. NASH. This is true. A lot of lenders did and are still requiring some type of protection, but they too are finding that it is unwise to invest money to require farmers to do some of these things that will not return them the protection either. This program has been this way for a number of years. We have been trying to get a change in it, and it has not been working.

Chairman HATCHER. Well, from your testimony and from what I have heard earlier, it seems to me that basic yields are one of the major problems.

Mr. NASH. Basic yields, and also we find that in other sections of the country the programs are handled differently than what they are in Georgia. I have been to Washington a number of times to discuss this issue that they would allow farmers in some States to have a different type of program than what we were allowed here in Georgia, mainly the proven yield situation in which we were not allowed, where other farmers were allowed, to prove their yields. We think this is wrong. The irrigated and nonirrigated crops, with one farmer using both systems on his own farms or on separate farms has caused us a tremendous problem to where if you were going to make the extra investment to irrigate and possibly produce enough on that to overcome a loss on dry land, you could not afford to enter into the program.

Chairman HATCHER. That is another practical question that I wanted to ask you. Where you have irrigation for peanuts or tobacco, either one of those commodities which are strictly regulated, where you have all of either of those commodities irrigated, is it ever economically feasible to have crop insurance?

Mr. NASH. Well, crop insurance is a multiperil insurance, so I think there is a possibility that even though you do irrigate all your crop, you have your hail, you have insect damage, you do have some other risks out there other than not having enough water, that the program should be written to where those coverages should be protected to the farmer.

Chairman HATCHER. Thank you, sir. Mr. Ray.

Mr. RAY. Thank you, Mr. Nash. You have made a very fine statement here and, I particularly thought that your statement was

good comparing the ownership of 10 houses and when one burns down that you are getting insurance on that one house and the others remain unaffected. I certainly believe that we have to focus on that type of situation with Federal crop insurance, particularly where it deals with irrigated land versus dry crop land.

Mr. Hatcher mentioned the fact that Georgia had less participants in the insurance program than other States, and I would assume that partly is because many of the midwestern States and other States around the country have not experienced the severe drought and weather conditions that Georgia has in the last several years, which means it has been an accumulative situation in Georgia.

Is that correct, sir?

Mr. NASH. Yes; I think that is correct. We have also noted that in some other States where they do not have as much risk, they too have not participated. I am talking about in the Midwest, because actually all they were interested in is hail and fire insurance mainly in those areas. Their yields have been high enough that they could survive from one year to the next, a single drought. Had a series of droughts hit them, it would have been devastating for them.

The Texas area, which has been using Federal crop I think pretty heavy, they have had some different programs out there for them that they did not allow our cotton farmers to participate under, and things like that.

So, I think the whole program needs a good look, and I think those 25 members, if they are selected correctly, can identify some of these issues.

Mr. RAY. Could you explain why Texas farmers would be shown some priority when Georgia farmers were not?

Mr. NASH. I do not know what they did this last year, but some 2 years ago, I believe it was—might have been 3 now—they were allowed to increase their yields by—and it was advertised—if you will skip row, every two rows, it will increase your yield, but if you will skip row every four rows, it will increase it again. Those people cleaned up on it out there. They got their Federal crop insurance, and we came along with a disaster program for the southeast, and they benefited from it too. They have been treated differently from what the Georgia farmer has been treated.

Mr. RAY. Is there a conflict when we have a Federal crop insurance program and a disaster program too?

Mr. NASH. Is there a conflict? Well I think any time that we do not have more participation in the Federal crop, then I think the Government has to come with a disaster program under the situation we have been under the last 2 years. Because otherwise, the total devastation of not only the farmers but the agribusiness, the banker, the financier, and all of agriculture, would be hit drastically too.

So, the dollars we receive in the disaster program flows through mostly to the people who supply the products and financing. That is the reason why we think the program should at least cover those costs of production.

Mr. RAY. So, you would think that with some adjustments in the program to cause the farmer to lean more heavily toward the Fed-

eral crop insurance and wondering if a disaster program might be in the background would be an incentive that we ought to work toward?

Mr. NASH. It was hard for me to hear your question, the sound is bouncing back and forth.

Mr. RAY. You would encourage some adjustments and changes in the disaster program and insurance program—the Federal crop insurance program, which would create an incentive for the farmer to purchase insurance rather than wait on a disaster program that might come?

Mr. NASH. Yes; I think every farmer would be willing to buy his insurance as he buys to protect his buildings and all, he would rather buy that insurance as a business proposition than to sit around and wait to see if Congress is going to provide a disaster program because you can have a partial disaster that will never qualify for a Government disaster program, that you need Federal crop insurance to protect you for.

Mr. RAY. Thank you, Mr. Nash.

Chairman HATCHER. Thank you very much.

The next panel consists of Mr. Billy Griggs from Unadilla, GA, Mr. Don Williams from Lenox, GA, and Mr. Van Sellers from Albany, GA.

If it is OK with you, Congressman Ray, we will hear from all three of these gentlemen and then question them after that.

Mr. RAY. Fine.

Chairman HATCHER. Mr. Griggs, you are number one, thank you for being here.

TESTIMONY OF BILLY GRIGGS, UNADILLA, GA

Mr. GRIGGS. Thank you, Congressman.

My name is Billy Griggs. I am a farmer in Dooly County, which is in middle Georgia. My operation consists of cotton, peanuts, small grains, soybeans, and beef cattle. I am also associated with a cotton warehouse and gin in Dooly County. I come before you representing a large group of concerned leaders which consists of farmers, agribusiness people, insurance agents, and bankers from Dooly County.

I want to take this opportunity to express our appreciation to you for taking time out of your busy schedule to hold this hearing in Tifton and hear our concerns and recommendations on Federal crop insurance and related programs. I will also take this opportunity to tell you that your dedication and tremendous efforts on behalf of agriculture as a whole are recognized and appreciated in Dooly County.

Our county's economy is based almost entirely on agriculture, with the main crops being peanuts, cotton, wheat, soybeans, and corn. We have had the misfortune over the last 12 years of having to endure five major droughts, with parts of our county suffering isolated droughts in many of the remaining seasons. The results of this awful weather pattern in Dooly County has been devastating to the total economy in our county. This years appears to be as severe, financially, as any other.

This devastation, in our county and other parts of our Nation, has been recognized by Congress. Steps have been taken to partially counter the effects of drought and related problems. The assistance programs have come in three main forms: Low interest loans; disaster programs; and Federal crop insurance. It should be noted that each of these programs have had numerous success stories to their credit in keeping hardworking, persistent, and efficient growers on their land for the production of food and fiber for our Nation. It should also be noted that each has had its share of problems with abuse, confusion, cost, and resulting bad press, making it hard on our Congress and our efficient growers. It should be kept in perspective that the primary culprit has been the natural disasters threatening our food and fiber supply that make these type programs necessary.

We in Dooly County are aware of the bad publicity received due to the abuses and cost of these programs. We also fully recognize, having had to live through these disastrous times in agriculture, the essential and the dire need for a program that will help us bear the risk of farming in today's economy. In defining risk, I am referring to the fact that each farmer's entire financial base is exposed to not only all natural elements, but also to all the effects of our many national policies, laws, rules, and regulations, as well as those of other nations, that have led to an extremely high cost of production and low prices for commodities. This exposure is to each farmer, each crop, each year in the production of food and fiber for our Nation.

We believe we are fast approaching a time when the voters of this country will not allow all of these programs to exist. With this thought in mind, we submit the following thoughts, ideas, and recommendations.

As previously stated, we believe it is essential to have a program for agriculture to help growers bear the inherent risk of farming in today's economy. If Congress chooses to select a low-interest loan and/or a disaster program on a year-to-year, as-needed basis, then we only ask that it be fair and equitable to all growers, with recognition given to isolated or small disaster areas as well as large, and a proper policing policy be developed to ensure the integrity of all involved. We also ask for recognition of the fact that agribusinesses are also directly affected by crop disasters, especially recurring ones.

If Congress chooses to select a Federal crop insurance program as the only means of assistance, we would like to share the following with you.

The Federal crop insurance program of today has evolved into a program that is of very little benefit or assistance to many of us in Dooly County. In fact, for many of us, to participate would only add to our problems in good years and bad years alike. It should be noted that a large percentage of those that participate in our area do so because of pressure from lending institutions, even though it adds another burden to the grower. This pressure from lenders to reduce at least some of their risk, is understood by growers, but insurance is still another cost to the grower and adds to cash-flow problems. The reason for this is a very low coverage provided by FCIC at a high cost per acre to the grower.

This situation is brought about by the method FCIC uses to establish levels of coverage and cost of premiums. FCIC uses either a 10-year proven average yield based on production or, if yields are not available, a transition yield that is some percentage of ASCS yield. In some cases in this Nation, we understand this percentage is as low as 35 percent. Also, FCIC has adopted a policy whereby growers with big yields are charged low premiums and growers with low yields are charged high premiums.

Using FCIC's criteria for yields and premiums, we, in Dooly County are faced with numerous disaster years being averaged into a 10-year period resulting in an average disaster or near disaster base yield which is then factored even lower, reduced by the 25-percent profit factor for the highest coverage, and in turn assigned a high premium. In the case of no proven yields for a partial or entire 10-year period, a grower is assigned a yield, a percentage of ASCS yield, to be applied to the years with no proven yields. This, averaged with years which can be proven—sometimes disaster years—equals a yield which is almost always extremely low.

At this point, FCIC becomes more crop specific. In other words, rules, regulations, definition of units, and so forth, may become different with each commodity. What applies to one commodity may not apply to others. One example of this is that FCIC does not recognize the differences between irrigated and dry land cotton grown under one farm serial number. Add to this the new rule, effective in 1988, that all cotton grown by a farmer must be insured, regardless of farm serial numbers. In other words, all of it or none of it. Another example is that FCIC not only fails to recognize the difference between dry land and irrigated acres, but also fails to recognize separate farm serial numbers of a grower within the same county when addressing soybeans.

These are but two of the many examples that can be given showing how the different rules apply to different commodities, but are prime examples of some of the inequities as they apply to growers in Dooly County. More rules could be cited and more examples could be given, but the results are the same.

Given the method of determining coverage levels and premium cost, the disastrous weather patterns of Dooly County and much of the southeast in recent years, and the barriers imposed by the crop specific rules, we are left with a program that provides coverage at a level that in most cases comes nowhere near the cost of production, and, in effect, is of little or no help to many of the people who need assistance the most. The culmination of these factors lead us to recommend a restructuring of the Federal crop insurance program.

If Federal crop insurance is to be the sole program used to provide needed protection, then we express an urgency in addressing the problem. We recommend a short-term approach in addressing the immediate needs of 1989 and 1990, and a long-term approach to be addressed with the new farm bill.

We further recommend the following objective for restructured Federal crop insurance programs: To insure a stable and consistent supply of high-quality food and fiber at a reasonable price to the American public by providing the necessary risk reduction mecha-

nism to allow growers to accept the risk of farming in today's economy.

A prerequisite to setting this objective is acknowledgment of several factors. They are as follows:

First, the production of food and fiber in this Nation is essential to the well-being and, in fact, the national security of this Nation.

Second, the financial risk of farming in today's economy has become too great a burden to bear by the individual grower in many instances.

Third, it must be understood that such a program, although funded in part by the grower, will have a substantial cost to the Government, but through planning and budgeting can be much more cost effective than reacting to an annual crisis situation.

Fourth, coverage near an individual farmer's cost of production must be the ultimate goal of crop insurance, or there is no incentive for the grower to accept the expense of a premium, as denoted by low participation in today's program.

Our recommendations for short-term restructuring of Federal crop insurance are as follows:

First, restructure yields to 1985 ASCS established yield levels for individual farms. We use 1985 established yields because these yields reflect average production with adjustments for disaster years. The years 1986, 1987, and 1988 established yields reflect a factoring downward of yields to deduct program cost.

Second, redefine farm units so that no more than one farm serial number is included in the unit and so that irrigated and dry lands are not included in the same unit.

Third, make coverage available at the farmer's election by the unit, assuming recommendation numbers one and two are accepted.

Fourth, devote more effort to policing to insure that adequate farming practices are used and abuses are avoided. We feel that changes made in reaction to abuses of the program have substantially defeated the purpose of the program as originally intended.

Fifth, recognize that irrigated lands reflect a greatly reduced risk exposure. Adjustments in premium or coverage should be made to reflect this reduced level of exposure.

Sixth, coverage should not automatically renew and should be available until the final normal planting date for each crop.

Seventh, recognize that, except for weather, a farmer's management ability has more direct bearing on production than any other factor. This fact should be taken into consideration when setting yields, payment levels, and so forth, when farms undergo ASCS reconstitution.

In addressing the long-term approach to be applied with the new farm bill, we have two avenues which we feel should be explored in our search to find the most efficient and cost-effective method of attaining our objective.

The first avenue is as follows: Implementing the recommendations as described in the short-term approach should increase participation and supply needed levels of coverage. Certainly the 2 years experience the program would generate before adoption of the new farm bill would give us a tested program to consider at that time.

The second avenue addresses a program that is based entirely on financial outcome. Following this line of thought, we recommend that:

First, a study be made exploring the possibility of developing a sound insurance program wherein each farmer could insure a given crop up to a level not to exceed his proven cost of production for that crop. Actual income would be used rather than hypothetical prices and should that income fall below the cost of production, a claim would be in order.

Second, we feel that commercial insurance companies have the expertise to develop the procedures necessary to implement the program described above. Risks are so high that we are positive the Federal Government would have to contribute to such a program, but the funding level should be somewhat below current FCIC costs plus disaster program costs.

Third, we further recommend that the national FCIC governing board be structured in such a way as to insulate them from changes in administration and that a local board similar to the ASCS county and State committees be put in place to advise FCIC officials at that level. These boards would be helpful in evaluating farmer competency.

Fourth, while farmers must be represented on the boards listed above, primary consideration should be given to competent insurance professionals at the State and national levels.

In conclusion, insurance is a risk management tool whether it be property and casualty, automobile liability, general liability, or Federal crop insurance. Until the level of coverage deemed necessary by the insured is provided at a premium cost acceptable to that insured, the program will not grow. In fact, just the opposite has been happening to Federal crop insurance in Dooly County with reduced coverage and increased premium costs making it financially unsound to purchase coverage. A sound Federal crop insurance program would help alleviate many of the problems being experienced by farmers, bankers, insurance companies, agents, and farm supply businesses. This would, however, leave the first processor of raw farm products such as peanut warehouses, grain elevators, cotton gins, and packing plants crippled by the greatly reduced volume of raw material caused by widespread crop devastation. This hearing is not being held to discuss this problem, but it is a cause for great concern in the rural communities that rely on these businesses for their economic well-being.

Again, we thank you for your efforts on behalf of agriculture and for the opportunity to express our views at this hearing today. Thank you.

Chairman HATCHER. Thank you, Mr. Griggs. That was an excellent statement, very comprehensive. Obviously, you have given this a lot of thought, and I would not be surprised if you are one of the people that prompted Congressman Ray to get me to have this hearing. You certainly have given this a lot of thought. I know you are on the Peanut Commodity Commission.

Mr. GRIGGS. Right.

Chairman HATCHER. What about coverage on peanuts in our State, in south Georgia? Does anybody use it any more?

Mr. GRIGGS. It is used in Georgia, yes. The peanut section of the crop insurance is probably one of the best coverages that we have in Georgia at this time, but these disasters and the method crop insurance uses in determining these things, we could be hurt in that area. That is another crop-specific rule.

Chairman HATCHER. How is it working with a farmer who has all or almost all of his peanut crop irrigated? Is it viable economically in that case?

Mr. GRIGGS. In peanuts the premiums are reduced by the fact that they are irrigated. A farmer can make a better choice with irrigated and dry land peanuts than he can with say cotton, or soybeans, or something of that effect. It can be a viable alternative in peanuts; yes.

Chairman HATCHER. You are having more trouble with the other commodities as far as crop insurance goes?

Mr. GRIGGS. Right, by the nature of the way they figure yields and coverage on other commodities, they present much more of a problem than peanuts.

Chairman HATCHER. Well, thank you very much. Mr. Ray.

Mr. RAY. I want to thank Mr. Griggs for that excellent statement. I do know that you brought together a number of different people, agribusiness people, financial people, farmers, and have come up with recommendations that we ought to take a good look at. I appreciate that, and I will see that these concerns get to the right places and before the committee.

Mr. RAY. In Mr. Gabriel's testimony, and mine, and his dialogue, he mentioned the need for better education of people, printing of 1 million brochures and so forth. Do you feel in Dooly County and that area, that you need to have better educational review of what is going on?

Mr. GRIGGS. Mr. Congressman, I think the education needs to be in Washington. I believe that we need the people that are administering this problem to be better educated on the situation down at the farm level.

Mr. RAY. Thank you, Mr. Griggs. That is the only question that I have at this time.

Chairman HATCHER. That is all I have at this time.

Mr. Don Williams from Lenox.

TESTIMONY OF DON WILLIAMS

Mr. WILLIAMS. I appreciate this opportunity of coming up here and telling the way I feel about the insurance situation.

Just like on this particular case, you are taking a look on these splitting farm numbers. I grow three or four different farms. I tend them, and I am all up under one farm number, I reconstituted them to make it simpler for the ASCS office, and I have to insure up under these same three farm numbers. I insure up under one on all three farms. I do not feel like it is right for me to insure my crops under one farm number when I have a farm over here of 100 acres that I make a good crop on, and I come here, and I have a failure on the other two, and this one farm has to take care of all these others ones. I do not feel like it is right.

It costs just as much to make this big farm as it does these others, and this one farm having to pull up the other two, that is wrong on account of I have got a loss on these two farms over here. You need to have the insurance up under three farm numbers, the original farm numbers. Then if I have a loss over here, I can overcome them.

That is just like taking money out of one pocket and putting it in another. You cannot make it if you lose, and that is what I wanted to come and say. I appreciate being here.

[Mr. Williams' statement may be found in the appendix.]

Chairman HATCHER. Thank you very much. Mr. Ray, do you have any questions?

Mr. RAY. Is this kind of a meeting helpful, this forum helpful to you to get your message out, your concerns out?

Mr. WILLIAMS. Do what?

Mr. RAY. I just said is this type of a meeting helpful to you to come and be able to express your concerns?

Mr. WILLIAMS. Yeah, that is the reason I came. I wanted to let people know that there should be more farmers involved in this thing and tell their feelings, how they feel about the insurance. Then the insurance—you should be able to insure your losses for you, not have to depend on somebody else to give you a handout. That is what I am tired of.

Mr. RAY. Thank you.

Chairman HATCHER. We appreciate your experience, you sharing that with us, and how it actually works down on the farm. Thank you.

TESTIMONY OF VAN SELLERS, ALBANY, GA

Mr. SELLERS. My name is Van Sellers, I am originally from Calhoun County. I am an agricultural consultant, and I am here today on behalf of Pecan Growers Association of Georgia.

I would like to thank you for this opportunity to come here.

On behalf of the pecan growers, I would like to ask you for your help and cooperation in securing crop insurance, even with all its inequities. We have not had a chance to experience these inequities over the last years.

We in pecan production have had a hard time for the last 10 years. Rainfall has been normal as far as volume, but it has not come at the right times. Droughts have been critical on our farm 7 out of the last 10 years. We have had to contend with a hurricane in 1978 that wiped out our crop. We have not been able to insure this.

Disaster bills are not the answer because very few of our droughts are really considered agricultural droughts because of the timing of our rains. Our critical time is the latter part of August, first of September. There are very few field crops that this is very critical in. When we hit that drought it devastates us. We lose our whole crop during that time.

We commend you all for putting peaches in the program this year in Georgia, and think possibly that is an avenue for you to look at as far as pecans. Some of our peach growers have insured,

and this is probably an outline of the way we should go, based on production.

I have got very little to say, but as an ag consultant I would like to say that insurance to me is the only feasible answer. In all the restructures I have worked and workouts, I have not found a man yet that can borrow himself out of debt and that is what disaster loans have put before us over the past few years. Thank you for this time.

[Mr. Seller's statement may be found in the appendix.]

Chairman HATCHER. Thank you, Mr. Sellers.

Could you tell me, if you know, what percentage of our pecan acreage is irrigated in Georgia now?

Mr. SELLERS. Congressman Hatcher, I would like to say it is probably close to about 30 percent. It is getting more and more each year. But with the droughts and devastation we have had in the last 10 years, I think it is coming to a slow halt.

Chairman HATCHER. In your written statement here, you said pecan farmers around us can insure their crops up to——

Mr. SELLERS. That should have been peach. I am sorry.

Chairman HATCHER. I was wondering, because there is no program, and that is what you were wanting is a program, right?

Mr. SELLERS. Right.

Chairman HATCHER. You heard the statement from Mr. Gabriel that they are considering it, and I know you have talked with someone from my office about that before. We will be interested in working with you and others to see if we cannot have a viable insurance program for pecans.

Mr. SELLERS. I appreciate this interest, and I appreciate the opportunity to be here.

Chairman HATCHER. Mr. Ray.

Mr. RAY. Thank you, Mr. Sellers, for coming and giving us your testimony this morning. You have heard some of the questions that have been raised and the problems that are facing farmers. Without some of these needed changes or these changes being addressed and legislatively corrected, what is your prediction for the future of the program? Is it going to struggle along or not make it?

Mr. SELLERS. The pecan crop is not a program crop as such. We have no goal to shoot for. We have not had the insurance on it. We are seeing a lot of production in pecan crop being pushed over and making row crop out of it, and we are going to see more and more of a trend that way if there is not something done to save this crop. Georgia is 40 percent of the pecan crop of the Nation per se. We are 35 percent of the pecan crop of the world.

Mr. RAY. Thank you, sir.

Chairman HATCHER. I would like to thank all three of you. We appreciate you being here and appreciate the effort you made.

The next panel consists of Mr. Gene Gantz, executive vice president of the American Association of Crop Insurers, Mr. Ted Waller from Blakely, GA, who is an insurance representative, and Mr. Strick McDaniel, an insurance representative from Adel, GA.

I would like to thank all of you for making the effort to be here today for what I hope will be a worthwhile and beneficial hearing regarding crop insurance. We will hear from you in the order that

I called you, so Mr. Gantz, we appreciate you making the effort and the trip to be here.

TESTIMONY OF EUGENE GANTZ, EXECUTIVE VICE PRESIDENT, AMERICAN ASSOCIATION OF CROP INSURERS

Mr. GANTZ. Thank you, Congressman Hatcher. I would like, with your permission, to summarize my testimony in the interest of time, and have it presented in its entirety for the record.

Chairman HATCHER. Your entire statement and all the others will be submitted in full into the record, and I appreciate you paraphrasing it.

Mr. GANTZ. Thank you very much.

I do represent the American Association of Crop Insurers. Our association is the only organization that represents both master marketers and reinsured companies. Most of the agents here today are affiliated with one or more of our member companies.

Crop insurance has worked in various ways in different places of the country. While the program is less than perfect, we feel it has come a long way since when Congress passed the amended version of the law in 1980.

Today, in Georgia, 14 different crops are insured, and they are listed in the testimony.

The insured acreage nationally has about tripled from where it was in 1980, from about 26 million acres to about 75 million acres in 1988. In 1988, we estimate that about 30 percent of the eligible acreage in the country is covered. In the Great Plains and the Midwest where the heaviest concentration of business is, about 1 out of every 3 acres there being covered this year. That is critical to many, many growers with the disaster that has occurred there.

Focusing on Georgia, the program was very experimental back in the late seventies. About 58,000 acres were insured. That increased to a record 2.2 million acres in 1982. In 1988, it is estimated about 900,000 acres are insured. This reduction, we believe, is due to two primary factors. One, of course, is the high participation in the acreage reduction program or Government programs, and second, is the adverse rule changes that FCIC implemented following the multiple disasters that have occurred here.

Despite these changes, we believe that the crop insurance program has had an important economic benefit in Georgia. If we look at the years 1981 through 1987 collectively, there was about $1.8 billion of coverage in force and farmers received about $2.60 in loss payments for every premium dollar that they paid.

Looking at the Second and Third Districts for 1981-86, the protection in force was about $725 million in the Second District and about $233 million in the Third District. Georgia was about $1.6 billion for the State as a whole. The farmer benefit/cost ratio, which is the returns in loss payments for premium dollars was about 2.2 in the Second District, about 3.3 in the Third District, and about 2.6 for the State as a whole. One more fact, the economic benefit, assuming that a dollar changes hands three times before it leaves the community, in the Second District would have been something over $200 million, in the Third District about $126 million, and for the State as a whole about $665 million.

Looking at the program in Georgia and a brief evaluation from our viewpoint. First of all, we compliment FCIC management for issuing the rules at this early date for 1989. This is a first since the act of 1980 was passed, and we think it gives growers and agribusinessmen an opportunity that they have not had before to be fully informed about the details for the 1989 crop programs. So, we compliment them for that. That is an issue that our industry has promoted strongly for the last couple of years.

But looking at some basic problems here, we think that the basis of coverage is a system that is good in principle but has some flaws in application. Two flawed situations include: First, where the grower has a short record set. Essentially, in this kind of situation, FCIC uses various approaches for coming up with appraised yields to fill out the full 10 years. We believe that there is a major flaw when cotton ASCS yields are reduced by as much as 78 percent to come up with an appraised yield for the farm. Second, the other similar situation is the fact that as this program has been redesigned, FCIC has used very conservative approaches in developing their rules. The results we have cut a lot of farmers out of the program and weakened the actuarial base, which is a real hindrance to the program.

We believe that greater forbearance and understanding must be exercised by FCIC underwriters and actuaries when repeated disasters are experienced. Many of those who testified earlier today touched on this subject. Using a 10-year actuarial base may work pretty good to establish coverage in areas of the country where you only have perhaps one or two disasters during that period. But when these are repeated disasters like was testified to here by others, the 10-year period is much too short. When a faulty period is used to represent the grower's yield capabilities, then very low coverage results. Couple that with the negative correlation between coverage and rates the problem is compounded. When the coverage is set too low, abnormally high premium cost result.

Under the current system when a way is found to get the yield boosted to where they should be, then the rates will automatically go down.

Another area that we are concerned with is the inconsistent rules that exist between crops. This makes understanding the MPCI program difficult for those of us in the insurance business and also for insured farmers. One set of rules applies to cotton, another set applies to soybeans, another to tobacco. A good example of this is the unit definition. On soybeans, all of the land across ASCS farm numbers in the same unit. I think Mr. Nash illustrated the problem this causes very well with his example of 10 houses being insured and 1 house burning. If they were all under one policy and not considered separately, it would not be a very good protection plan for the owner. Neither is the soybean approach of combining farms into one unit good for farmers.

Our analysis shows that following this rule change by FCIC, there has been a steady decline in business. This occurred while steady growth was occurring in other parts of the country where this rule was not in effect.

Another disparity in the rules between crops is that soybean growers can use the 3 most recent years of production history to

establish their yield, while for other crops you have to go through a series of plugging in appraisals or artificial yields to fill out the 10-year history. That makes particular problems with an expanding crop acreage like cotton, with unrealistic FCIC factored yields and also when there are many reconstitutions of farms thus causing short data sets..

Another example of inconsistent rules is combining irrigated and nonirrigated acreage on the same farm into one insurance unit. I can tell you that in other places in the country, they are separate and we believe that if separate yield records are maintained, that there is no reason why they could not be separate insurance units.

We believe also that the programs need to be established for additional crops. We have heard repeated requests for pecan insurance, and I was pleased with Mr. Gabriel's commitment that this is in the works. It seems to me with all of the emphasis on alternate crops, that FCIC should move much more aggressively in providing protection for growers of alternate crops because growers often need protection to get operating loans. We think FCIC may have to take a cautious approach because of the limited records on such crops but believe experimental programs can be launched.

In summary, there are some things about this program that we all can be proud of. Getting the rules out in time, the fact that it is working better for some growers than programs of the past—all of this is good. But we must not be complacent—problems must be solved.

We are very pleased by the initiative of the House on the passage of the Crop Insurance Commission bill and its introduction in the Senate. We hope that it becomes law. We believe that is a breath of fresh air for the program because for the first time the Commission mandates that the insurance industry along with commodity and farm groups working together to come up with solutions. The lack of such combined efforts is one of the weaknesses of the program.

The problems of Georgia and other southern States, should be placed high on the agenda of this commission. We do not think there is any need to wait just for that commission to start improving the program. Some ideas could be tested for the spring of 1989.

We challenge FCIC pilot ideas of identifying better growers who are not now attracted to this program and find a way to better attract these growers into the program, because they are needed to establish a good actuarial base.

With this, I certainly thank you all for the opportunity to appear today, and at the appropriate time will be glad to answer any questions that you might have.

[Mr. Gantz' statement may be found in the appendix.]

Chairman HATCHER. Thank you, Mr. Gantz.

We will next hear from Mr. Ted Waller. You are free to read your statement or to paraphrase it as you see fit. The entire statement will be entered into the record.

TESTIMONY OF TED WALLER, INSURANCE AGENT, BLAKELY, GA

Mr. WALLER. Thank you, Mr. Chairman, Mr. Ray. I appreciate the opportunity to testify before you today.

The testimony that I am giving you is based on 7 years of experience as an agent and involvement in the sales and service sector of the crop insurance industry. Prior to that, I was a farmer. I experienced the 1977 drought and the 1980 drought. So, I am very well familiar with the farmer's problem.

The Crop Insurance Act of 1980 was a step in the right direction. It was a necessary change that needed to be implemented because it brought protection to the individuals who qualified. It also required the producer to pay a premium for that protection.

This method of disaster relief was more acceptable by the nonfarm taxpayers because in the past they had felt that any type disaster payment was a giveaway or a bailout for the farmers.

This program can be stabilized to offer realistic guarantees with affordable premiums. When this is accomplished, it will not only stabilize the individual farm operation, but it will stabilize the entire agribusiness industry.

If a producer is offered protection that covers his normal production cost, and I stress normal production cost, for a premium that is affordable, you will see participation increase beyond all expectations. If he can cover his production costs, you will prevent a lot of bankruptcies, individual farm bankruptcies, and business bankruptcies. You will enable the producer to repay his operating loan. You are not going to guarantee him a profit, but you will guarantee him that he can repay his operating loan, and that keeps a lot of farm equipment dealers, seed and fertilizer dealers, chemical dealers, in business. There is not a small town I do not guess in rural south Georgia that we do not have at least one tractor dealer closed up, and many of them that had two to three tractor dealerships now do not even have a tractor dealership. Not only tractor dealerships, but other ag related businesses have closed, too.

A lot of these carry-over debts from operating loans have been added to existing real estate loans. The banks, the lenders, had to have something to secure that debt. The farmer could not finish paying off his operating loan, so that debt was tied into a real estate loan which gave the effect that maybe that farmer had paid too much for his farm.

The crop insurance protection also will protect the banks, the farm supply dealers, equipment dealers, and the entire farm credit system.

The 1980 Crop Insurance Act placed into operation a plan that would use the private sector to market this. This has been implemented. The private sector has in place sales agents to deliver the program. The private companies have the data processing functions in place to use, and they are doing a good job with that. They also have an effective training program to place reliable sales agents delivering the program, and trained and qualified independent loss adjustment contractors are in place to handle disaster losses.

The most effective method for marketing this product is in place. The biggest problem we have had has been radical changes in the existing program by the Federal Crop Insurance Corporation. We have not been able to maintain a consistent program.

The general provisions of the policy and the special provisions of the policy have remained constant pretty well since 1981. The loss adjustment procedures have remained pretty constant since 1981.

But FCIC has made repeated changes in procedures that directly affect the method of calculating these guarantees and the unit division guidelines. Transitional yield factors have been implemented for corn, grain sorghum, soybeans, cotton, and small grains. We have gone from an area coverage plan and an optional individual yield coverage, IYC plan, to a mandatory actual production history concept. Within this mandatory APH concept, we have seen numerous procedural changes that directly affected the way that you calculate these guarantees. All of these changes have required extensive agent training, adjuster training, company staff training, and computer reprogramming.

Each year we have received the program later and later from Federal Crop. In the southeast, our closing sale deadline for the major spring-seeded crops is March 31. Due to the late delivery of the program, the agent training programs have been held sometimes in late January. At best, this is giving our agents 60 days to deliver the program to the American farmer.

The repeated changes dictated by FCIC has required the agent to practically go back and resell every one of his existing insureds. That has severely limited him in going about and increasing participation or attracting new insureds.

Normally the farmers are planning their operations in November and applying for operating loans. Due to the changes in the program, the lenders are familiar with how it has changed since 1981 on an annual basis. Both the insured and the lender has been hesitant to base those loans on previous years' rates and rules. This point alone has denied the lender and the insured the use of crop insurance as a risk management tool.

The crop insurance policy is a continuous contract from year to year unless it is canceled by the insured. Should not the insured be entitled to expect a consistent program from year to year without these radical changes?

FCIC management has elected to freeze the program in 1989 at 1988 rates and rules. I think this is a step in the right direction. My only reservation is that they have imposed this freeze at a time when so many negative programs have already been allowed to be placed into operation.

The two most negative programs we have in the southeast are cotton and soybeans. FCIC has discouraged soybean producers in the 13 southeastern States only, by increasing premium rates on two occasions and changing the unit division guidelines to allow only one unit per county regardless of how many farm serial numbers you have or how he maintains his farming operation.

Prior to this change, we had a 60-percent producer participation rate in the State of Georgia. Within 2 years we dropped from 60-percent to 19-percent participation rate. We lost our better producers. In addition, in 1988, Federal Crop further reduced the transitional yields in the southeastern States by as much as 45 percent. I think Georgia was reduced 25 percent.

I feel these changes have been made without regard to program participation, especially increasing participation.

In cotton, in 1988, FCIC issued a T-yield factor for each county. This factor has to be applied to the ASCS program yield and it is plugged in for any year that he does not have actual production

history for in that 10-year base period. This has been especially negative to the new producers or the producers with only 2 or 3 years production history. The factor ranges in Georgia from 24 percent to 75 percent of his ASCS farm yields, with most counties ranging from 45 to 60 percent. This change caused many existing insured to cancel their coverage for 1988 and made it almost impossible to sell new insureds.

I have some exhibits behind my written testimony there that if you will review, I think you will understand. I think one will show you where from 1987 to 1988, using the same farm and the two different methods of calculation, we raised the insureds premium by a dollar from $40 to $41 an acre, and we cut his guarantee half into. This has prevented the agents from implementing this program.

As you are aware, we have had a considerable increase in planted acres in Georgia in cotton in the last few years. There has been millions of dollars spent in new gins and harvesting equipment, yet we have been unable to attract these new producers. Not because the agents have not presented the program; not because the producers and lenders are not interested in participation and protection; but because the protection that we offered did not offer realistic production costs at an affordable premium.

Again, I feel the cotton factor was implemented without due consideration for program participation. Another reason for program participation is that many of the producers have felt that they did not need to participate in the program because if a disaster did occur, there would be some kind of disaster program placed into effect, and that way they would not have to pay a premium for it. This has had a negative effect on our insured producers. Many of them feel like they have been penalized because they had crop insurance because their neighbor that elected not to cover himself, not to protect himself with crop insurance, has actually collected more ASCS benefits than he did.

I understand that the Office of Management and Budget is now proposing rate increases or telling Federal Crop that they need to increase the rate. We do not need rate increases; we need increased participation.

Crop insurance is no different from any other insurance; participation is the key to success. However, the nature of crop insurance is such that being profitable is impossible. If it were possible to be profitable, we would not need a Federal program.

If guarantees were based on ASCS program yields, we would see a larger participation. The ASCS yields are based on that particular farm or that particular area's ability to produce that crop. I do not feel that insuring up to 75 percent of that established yield would be unrealistic. FCIC underwriters working with ASCS employees and the Soil Conservation Service could develop a master yield for each crop that is grown on that farm. If there is not a program yield, they could develop one. This crop would have to be established based on a normal production, normal expectations for that crop, and the premium would have to be set as to be affordable if that normal crop was produced, and the insured would not be burdened with an extra large premium.

We have watched these premiums go up each year percentagewise and the guarantees come down. A basic premium needs to be

established. This rate would have to be reasonable enough that with the normal yield the producer would be able to afford the premium.

As with other types of insurance protection, the producer should be allowed to earn premium discounts after several years of favorable experience and a low frequency of losses. An insured that has got favorable experience maybe after 2 consecutive nonloss years, give him a 5-percent discount or 10-percent discount, and let this trend upward over a period of time to maybe a maximum of a 25-percent premium reduction. Likewise, insured who have repeated losses and have high loss ratios, leave that guarantee consistent, but, at the same time, surcharge his premium maybe after 2 consecutive loss years, give him a 10-percent surcharge. If that frequency rate continues, then continue the surcharge. After 4 or 5 years of continued losses, a good businessman would look at the feasibility of planting that crop again, looking at alternate crops.

I think this would serve two purposes. It would make the farmer look at his operation a little better, see if it was profitable, plus it would do away with a lot of the fraud and abuse that we are presently seeing in the program. We are still paying the same insureds that we paid in 1981, some of them not in disaster years. There are areas of the State, and Dooly County is one of them that for the last 3 years has had severe droughts. There are those areas.

Another positive method to promote the increased participation would be by better cooperation between ASCS and FCIC. Let them promote the crop insurance program the way they have promoted the Sodbuster-Swampbuster bill. They have got these farmers convinced that their program benefits are in jeopardy unless they do comply with the ASCS farm bill, even the crop insurance. We have to see that he is in compliance with the Swampbuster-Sodbuster before he even qualifies for crop insurance.

I feel like a positive signal should be sent from the political sector that over a period of time we are going to phase out these disaster programs, and the crop insurance program is going to become your disaster program. I think that can be done if it is worked at and with this committee that is going to be set, this review committee that has been appropriated for 25 members to look at it, if they will listen to the input from the field, listen to the producers and the agents selling this crop insurance, they will learn what the problems are, and they will know what they have to do about it.

This program can become a realistic program that offers protection, not only to the American farmer but to the agribusiness community and stabilize the rural economy of this Nation.

I appreciate the opportunity to testify before you today, and I will be glad to work with you in any way I can to make the 1980 Federal Crop Insurance Program a reality.

[Mr. Waller's statement, with attachments, may be found in the appendix.]

Chairman HATCHER. Thank you very much, Mr. Waller.

Next, Mr. Strick McDaniel from Adel, GA.

TESTIMONY OF STRICK McDANIEL, McDANIEL & SONS INSURANCE AGENCY, ADEL, GA

Mr. McDANIEL. I thank you folks for allowing us to talk with you today, and for taking your time out from a busy schedule. I am Strick McDaniel of McDaniel & Sons Insurance Agency down in Adel.

Today I am speaking as a multiline insurance agent writing multiperil crop insurance. I represent an agency that has been in business since 1960, and I have been a multiline agent since 1970. I have also been a crop insurance agent since 1981, as far as multiperil crop insurance is concerned.

My purpose in being here is to help identify some problems with the crop insurance program as it relates to the insurance agent and to offer some ideas and suggestions that I believe will help the program.

There are many problems in the program that have been identified this morning, and I will address a few at this time. One problem area is the complexity of the program, complicated ratings, and too much information and paperwork required to rate coverages and premiums.

I suggest that if a farmer is already in the crop insurance program, he should retain the same rate as in the previous year. In other words, to eliminate having to continuously update and make changes. A new farmer should be rated by the area of the county, soil type, or other simplified forms of rating. By using these ideas, we would be able to avoid obtaining so much paperwork from the county ASCS offices, which are already overworked.

Another problem area is constant changes in the program. These changes from year to year make it difficult for the agent to keep the farmer informed and should be kept to a bare minimum. The agent should be timely notified of all changes. Many times that is not the case. We receive notices of change at the last minute and are not able to get the word out to people timely.

Another problem area is inadequate coverage. Coverage is far less than the cost of production. In many cases, a farmer's actual production history is not a true reflection of his actual production history because disaster years are included in his actual production history which will lower his coverage. I believe that disaster years should be dropped from the actual production history to reflect his true yield.

Another problem is coverage for a first-time producer of a crop is too low. In the event of a total loss in 1988, a first-time cotton producer in Cook County—that is my county—would be paid approximately $176 per acre. That is for a first-time cotton producer. The cost of production established by the Cooperative Extension Service for one acre is $426, and that is in a normal year. That does not include this year where we have had to bear army worm, drought, and everything else that has driven the cost up by probably another $50 or $60 an acre, conservatively. This represents a deficiency of $250 per acre using the 65-percent level of coverage. I believe that the method for establishing first-time producer coverage should be reviewed and corrected to more adequately cover the producer's cost in the crop.

Another problem is uneven rating subsidies. Present premium subsidy encourages a farmer to take a lower coverage. At this time the lower coverage levels offer the maximum subsidy. I submit that all levels of coverage should have the same subsidy percentage. This would eliminate confusion in explaining the difference in premium between levels to the farmer. This would not discourage the farmer from purchasing the higher levels of coverage.

I would just like to mention a couple of other ideas. Market—I would like to encourage more use of market-based price elections. This will more likely produce a more realistic price for crops at the time of harvest. For instance, this year the market price at the time of harvest for corn and soybeans is likely to be greater than the maximum price election for 1988 as market-based price elections were not available for this year.

Another item to note is that the large amount of peanut acreage has been insured in recent years primarily because the coverage has been adequate and premiums have been reasonable. Insured acreages on some other crops such as corn and soybeans have dwindled primarily because of low coverage guarantees and high premium cost. This indicates to me that if a reasonable coverage amount and premium is used, farmers will purchase the coverage.

I might add that if we continue to add though the drought years into the peanut program, in their 10-year APH then our coverages are going to dwindle, and probably the farmers interested in peanut coverage will also lessen.

In summary, as a multiline insurance agent, I have the opportunity to compare the time I spend in handling the farmer's crop insurance to his other types of insurance. I estimate that it takes as much, if not more, time to handle a single crop insurance policy than all the other insurance combined. My point is that the crop insurance program is too complicated and requires too much paperwork and time for the farmer and myself.

I believe that crop insurance is a good program overall and has served many farmers well through the years. However, I think that with some changes such as the ones I have suggested today—and I might add, that many other people have suggested—it will be more appealing to all involved and better serve the farmer's needs.

I appreciate you folks allowing me to come in and talk with you this morning.

[Mr. McDaniel's statement may be found in the appendix.]

Chairman HATCHER. Thank you very much.

Mr. Waller, you are from one of our major peanut producing counties. What percentage, if you happen to know, of peanut acreage is covered by crop insurance?

Mr. WALLER. In the State of Georgia in the whole peanut producing area right now it is about 59 percent; right at 60 percent participation. That has steadily increased since 1982. We have had a steady increase in it, but I am concerned about the disaster years being plugged in the yield.

Chairman HATCHER. You might see the percentage covered steadily decrease if that happens?

Mr. WALLER. Yes, sir; we very well could see that if those disaster years are allowed to be placed in his yield.

Chairman HATCHER. Mr. Ray.

Mr. RAY. Mr. Gantz, Mr. Waller, and Mr. McDaniel, you have all put an awful lot of effort and study into these papers that you have presented. They are very finely done, and I appreciate it very much.

I do not have any questions for you. You have pretty well answered all of my questions, but they are very valuable to us as we take a look at the overall program.

Thank you, sir.

Chairman HATCHER. I too appreciate you coming down from Washington, Mr. Gantz, and I have already known of you two gentlemen's interest through contact with my office before. I know I talked with you myself, Ted, several times and talked with Strick as well.

Thank you all for your testimony.

The next witness will be Mr. Jack Hunnicutt from Moultrie, GA. We are going to put on his broad shoulders the representation of all bankers and agribusinessmen in the district. We thought we had somebody to help you, Jack, but they are not here.

But I would like to welcome you and thank you for making the effort to present this testimony for the subcommittee.

TESTIMONY OF JACK HUNNICUTT, ABC BANCORP, MOULTRIE, GA

Mr. HUNNICUTT. Thank you, Congressman.

First of all, I would like to express appreciation, I think, on behalf of maybe bankers—I feel like the Lone Ranger up here—that we be given an opportunity to discuss with you some of the problems we see in this area. I know that you are fully aware of our commitment to agrifinance, and we feel that it is important that we get representation from all areas to resolve a problem that we have with the Federal crop insurance program.

Having been involved in agriculture finance for the past 28 years, it is a pleasure to share some ideas with Federal officials for the first time. We appreciate your interest in allowing us to do that.

Our holding company and subsidiary banks have a real commitment to financing the family farmer as they are a major part of our economy in each of our trade areas. With this commitment, our farm finance representatives seek new and innovative ways to keep the farmer on the land. We have watched many of them leave the farm for the past 10 to 15 years for a more stable income stream. We realize that the lack of management ability and, in many cases, work ethics caused a large percentage of the problems.

After careful review of the Federal crop insurance program by our agrifinance team, we see a program that is not very attractive to our local farmers with the exception of peanuts. I have heard that mentioned several times this morning, so I think we are on base there. For all other commodities grown in our area it seems to be very difficult to cost justify Federal crop insurance. Let me share with you a few of these problems, and I am attaching a list of these problems.

Bank customers cite the cost of Federal crop insurance in relation to the coverage available as the primary reason for not participating in the program. The exception being the peanut program.

Producers have indicated that the current structure favors the poor or inefficient producer over the highly efficient producer.

Crop insurance premiums should reflect incentives for the low-risk operator and penalties for high-risk producers.

System needs uniform standards for yield determination and record retention.

Increased participation could be encouraged by offering high percentage coverage; 75, 85, 95 as opposed to the current 50, 60, 75 percentages.

Protection should include serving of current intermediate term debt, not carry-over debt.

Yield accounting seems to be a major problem for this program. However, with a protective Federal crop insurance program for the financing institutions it appears to us that records could be produced by the institution to help control the abuse and to eliminate the nonproducer. This should keep the cost of the program at an affordable level and create a working partnership with the farmer, the financier and the Federal crop insurers.

With the risk factors involved in agrifinance, the financier has to have assurance of repayment of operation loans. A crop insurance program that is equitable to all parties would appear to be the best approach rather than a hodge-podge of insurance, low-interest rate loans, and grants.

We commend you for allowing input into this program and assure you that we will support an equitable program to keep the qualified producer on the land.

I would like to thank you again for this opportunity, and I will be happy to respond to any questions.

[Mr. Hunnicutt's statement, with attachment, may be found in the appendix.]

Chairman HATCHER. I would like to thank you, Mr. Hunnicutt, for making the effort to come and testify today and making this excellent statement. I would also like to commend you for what I have observed in your bank holding company and your banks in having a continued interest in agricultural lending, especially operating loans, when so many of our institutions, private institutions, have not over the last decade.

Mr. Ray.

Mr. RAY. I just want to join my colleague, Chairman Hatcher, in his comments to you, Mr. Hunnicutt. Your remarks were right on target in my opinion, and I appreciate having those for the record so that we can certainly take them under consideration as we think about changes for the future.

Mr. HUNNICUTT. Thank you.

Chairman HATCHER. Thank you very much.

Usually at this time, I would allow anybody to say something brief. If there is somebody who would like to do that, we will be glad to hear from you briefly.

Richard and I have just learned that the plane is not going to be able to get into Tifton to take us to Atlanta because of weather, so we are going to have to drive to Albany and try to get up to make some votes this afternoon. The House is going in at 12:00. Of course we will not be there at 12:00 under any stretch of the imagination, but we hope to get there around 2:00 or 3:00.

But is there anybody who would like to make a brief statement or make a brief comment? We will be glad to hear from you.

Mr. CLEVELAND. Chairman Hatcher, Congressman Ray, I am Joe Cleveland from Fort Valley, GA. We are a little different from some of the other growers——

Chairman HATCHER. Come on up a little so this gentleman can hear you.

Mr. CLEVELAND. I said, sir, that we are a little bit different from some of the other people represented here in that we are growers of fruit, peach crop.

A great uncle of mine, John Pearson, once said about peaches, that they can promise you so much and give you so little—promise you so little and give you so much. Peaches today promise you little and give you little unfortunately.

The last 10 years for peaches not only has been a drought situation which had cumulative effects on our industry, but also the problems associated with frost. I have not heard much mention about frost damage, but when we talk acres of irrigated and nonirrigated crops, nothing from nothing is nothing.

In that regard, our fear in the spring is certainly frost, the number one enemy to the peach grower. Along these lines we feel that it is absolutely necessary for us to survive this industry in this State to have the insurance setup so that each block of trees which is spread out for a particular reason of frost and hail—we need to have each block insured under its own right or merit. Without that, it is basically a waste of our time. The economics are not there. We find time and time again under the insurance program that we simply lose money for it.

Mr. Nash brought up a very good point about having each block of land or block of trees, acres of land under its own merits to be insured. We certainly concur with that. But I was asked recently by a news person, in light of the last 10 years of drought, and certainly since 1985 with the frost and six below zero temperatures that we have had, would our industry in the State of Georgia be moving further south and my comment to her was—and it was an honest comment—that the state of the peach industry today in our State is such that we can make it or break it with the crop of ours that we have available to us now and the ones that we have in the ground right now, and we feel that through the years with an equitable insurance program, certainly I think the peach industry could have been in much better financial shape at this time.

So, I just wanted to make these comments to you and thank you very much for your time.

Chairman HATCHER. Thank you. Just a second, let us make sure the reporter got your full name.

Mr. CLEVELAND. Joe Cleveland. I and Raleigh Dickey with the Georgia Peach Council.

Chairman HATCHER. Thank you very much for that statement. Anybody else?

[No response.]

Chairman HATCHER. If not, let me thank all of you who testified and all of those who attended for coming to the hearing today. We certainly think it is beneficial, and we will take this back to Washington and see that it gets in the right hands.

Thank you.

[Whereupon, at 10:55 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF DON WILLIAMS

THE DISADVANTAGE IN CROP INSURANCE

IS THAT WHEN YOU HAVE THREE FARMS JOINED TOGETHER, THEY ARE UP UNDER THE SAME NUMBER. IF THE FARMS ARE TWENTY MILES APART AND ONE MAKES GOOD AND THE OTHER TWO HAVE A LOSS, THE ONE FARM MAKES MORE THAN YOU ARE GUARANTEED TO MAKE ON ALL THREE, AND THEN THE FARMERS DON'T GET PAID.

THE FARMS SHOULD BE PUT UP UNDER THE ORIGINAL FARM NUMBER. THEY SHOULD NOT BE PUT TOGETHER. THE CROP INSURANCE SHOULD BE FOR WHAT YOU HAVE INVESTED IN THE CROP.

THEN THE GOVERNMENT WOULDN'T HAVE TO COME OUT WITH PROGRAMS TO HELP THE FARMERS OVERCOME THEIR LOSSES, BECAUSE THEY WOULD HAVE THE OPPORTUNITY TO INSURE THE MONEY THAT THEY HAVE INVESTED IN THEIR CROP.

STATEMENT OF VAN SELLERS

Gentlemen:

I would like to thank you for this opportunity to speak to you and for your interest in the agricultural needs of our country.

On behalf of the pecan growers, I would like to ask you for your help and cooperation in securing crop insurance on pecans.

We in pecan production have had a hard time for the last 10 years. Rainfall has been normal as far as volume, but we at our farm have had droughts at critical times at least 7 out of the last 10 years.

In 1986, Mobile, Alabama, had a bountiful crop but it was wiped out by a hurricane. These things have been happening since the beginning of time, but they have only started to devastate us in the last decade. I think this in the most part is because of the very slim profit of margin we have been operating on. Our fertilizer and chemical prices have, in most cases, doubled if not qualdrupled, and our selling prices have basically stayed the same. This has killed off alot of our profit and one disaster will wipe you out and, gentlemen, we have had several.

Disaster bills are not the answer because very few of our droughts are considered national droughts because of the timing of our crops. The August-September rainfall is imperative for us to get a good sound crop, not many other crops need this rainfall as badly as we do.

I feel that the way peaches are now insured in Georgia is probably a good way to begin insuring pecans. A 4-year-old peach tree can be insured for either their production record or the

state average. A 4-year-old peach tree is just coming into production. This would probably have to be changed to a 7-year-old pecan tree. Pecan farmers around us can insure their crops for up to 80% of $1,000 per acre. Most are insuring them for only 50% at a cost of about $28.00 an acre for young trees.

With the escalating prices of our inputs, we have to have a way of at least breaking even and crop insurance will let us do this.

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STATEMENT OF E. EUGENE GANTZ

Testimony on Crop Insurance Before
Congressman Charles F. Hatcher, 2nd District, GA.
Congressman Richard Ray, 3rd District, GA.
Tifton, GA.- October 3, 1988

I. Introduction:

I am Eugene Gantz, Executive Vice President of the American Association of Crop Insurers, located at 2501 M. Street, N.W. Suite 430 Washington, DC 20037. With me is one of our members, Mr. Russel Slade, Crop Insurance Manager of Cotton States Insurance, Inc., of Atlanta, GA.

We are the only Association that represents both organizations that write private company policies, reinsured by FCIC; and those writing federal policies. Our membership writes the majority of the multiple peril crop insurance throughout the U.S.

II. Overview:

The purpose of crop insurance is to provide meaningful protection to crop farmers and permit them to better manage their production risks as well as to help stabilize rural economics and benefit the national welfare.

In 1980, the crop insurance act was amended to authorize nationwide program expansion to all commercial growers of agricultural product. Currently, protection is available for over 40 different crops. Today protection is available to all growers of barley, corn, cotton, grain sorghum, oats, rice, soybeans, and wheat. Coverage is available for most growers in major production areas for most of the other crop programs.

In the interest of time, I would like to summarize our testimony and present it in full for the record.

In Georgia, 14 crops are insurable including:

Apples	Peaches
Barley	Peanuts
Corn	Prevented Planting
Cotton	Rye
Fresh Tomatoes	Soybeans
Grain Sorghum	Tobacco
Oats	Wheat

III. U.S. Participation increases significantly.

The increased participation by farmers throughout the U.S. has been encouraging. The gross acres insured has about tripled... from about 26 million in 1980 to an estimated 75 million in 1988. Preliminary estimates by the Association indicate that about 30% of the eligible U.S. acreage is currently protected.

IV. Crop Insurance in Georgia.

In Georgia, the acreage insured expanded from about 58,000 acres in 1978 to 2.2 million acres in 1982, which was the record. In 1988, it's estimated that about 900,000 acres are insured (reduction was caused by acreage reduction program and FCIC's adverse rule changes). The acreage insured in 1988 was up about 100,000 over 1987. A summary for Georgia for the period of 1981-87 shows:

$ 1.8 billion of protection in force
8.8 million acres insured
$127.0 million in total premiums (including federal subsidy)
$ 95.0 million of farmer paid premiums
$250.0 million in loss payments
2.6 farmer benefit cost ratio

V. Crop insurance performance in the 2nd and 3rd congressional districts of Georgia:

The estimated performance of the program in these two congressional districts for the period of 1981-86 is as follows:

Description	Second District	Third District	State Total
Protection in force (millions)	$725.9	$233.1	$1,567.8
Acres Insured (millions)	2.6	1.3	7.9
Farmers premium (millions)	31.4	14.1	84.1
Loss pd. to farmers (millions)	68.2	42.2	218.6
Farmers benefit cost ratio	2.2	3.0	2.6
Overall economic benefit to rural communities (3 x Factor) (millions)	$204.6	$126.6	$665.8

VI. Overall Georgia Evaluation:

While the program has provided significant economic benefit to the Georgia farmers that insured their crops, the program has some major short comings. Both the Georgia and the U.S. crop insurance program need significantly more growth to fulfill the goals of the 1980 crop insurance act.

VII. Some basic problems:

Let's focus on a few of the major problems that we believe exist:

1. The concept of providing coverage based on the actual yield history of the growers on an individual farm is a good one. However, there are some situations where the current application does not work very well. Two such situations are:

a. The decline in farmer participation by about 60 percent from 1982 to 1986 primarily due to FCIC's coverage restrictions and rate increases in the soybean program. There has been a reduction of almost one million acres of insured soybeans because of these actions. This has seriously eroded the actuarial base. It is our judgement that the insurance risk of those currently not insured is considerably different from that of many of the insured growers. Some experts have indicated that major participation increase could help to achieve actuarial soundness and allow reductions of up to 50 percent in present rates. This trend needs to be reversed quickly. FCIC should identify better growers and redesign the program so that the coverage offers and the premium rates reflect the increased production capabilities and reduced insurance risk of these individuals. These growers are needed in the program to broaden the actuarial base.

b. An improved method of establishing the production capabilities is needed for farms and farmers who do not have 10 years of production records. There is evidence that a grower without production records for the past 10 years is penalized under existing rules. Currently, a percentage of the ASCS yield for a crop is used to calculate as the insurance yield for the missing year(s) (soybeans are often keyed off of corn yields). There are situations where the ASCS yield is reduced by as much as 78 per cent to arrive at the calculated yield. When the calculated yields are blended with the actual yields a very low end result is realized.

When an unrealistic and erroneous yield is calculated for a farm or farmer, the negative correlation between insurance yields and rates on the premium tables can cause the farmers premium costs to triple. The situation has made the crop insurance program unattractive for many, many cotton growers. A solution(s) to this problem must be developed using input from cotton production experts, growers and insurers.

2. Greater forbearance and understanding must be practiced by FCIC underwriters and actuaries when repeated disasters are experienced. Georgia and many other states have experienced repeated disasters during the past 8 years. When such situations occur, it should be realized and understood that the actual 10 years of production history must be adjusted to reflect the growers normal production capability. Without this adjustment, the coverage is not adequate for growers.

There are a variety of approaches that could be used to adjust the yield for growers in this situation so that their yield reflects the equivalent of what it would be over a longer period of time.

This problem exists for many cotton, soybean, and corn growers in southern states.

3. Inconsistent rules exist for different crops on the same farm. When this happens it is difficult for farmers to understand the program and they may take actions that jeopardize their insurance coverage simply because they were confused. Some examples include:

a. The definition of optional separate farm insurance units is different for soybeans than for other crops in Georgia and 12 other southern states.

b. A soybean grower can choose to use a simple average of the most recent 3 years of production records as his insurance yield. For other crops, an unrealistically low appraisal yield could be inserted for the seven missing years and thereby reduce the overall average for the 10 years.

c. A study should be done to devise a way to provide for separate insurance units by practice when the elements of risk are significantly different and separate production records are maintained. (i.e. irrigated vs. non-irrigated; soybeans following another crop vs. those not following another crop; etc.).

4. Programs need to be established for additional crops. FCIC needs to devote more attention to develop protection for growers of alternate crops such as:

a. Pecan growers are without MPCI protection.

b. Numerous commercial vegetable crops are ineligible for MPCI.

c. Farmers who desire to shift acreage to alternate crops often have difficulty obtaining operating loans because crop insurance protection is not yet available on these crops.

VIII. Summary

Some good progress has been made in the crop insurance program, but important problems still need to be solved. The fact that FCIC has already issued the 1989 rules about 90 days ahead of schedule allows some time now to focus on fixing the problems outlined above. The simple problems can and should be fixed very quickly. The more complex ones may require careful study and the implementation of some experimental or pilot programs to field test some possible solutions.

Just two weeks ago a bill was passed in the U.S. House of Representatives with broad Agriculture Committee support, to establish a crop insurance commission to improve the crop insurance program nationally. The same bill has been introduced in the U.S. Senate. The required make up the commission would bring the crop insurance industry and the farm/commodity organizations together to work out solutions. We endorse that idea and hope that the legislation becomes law during this session.

Georgia and southern state problems should either be placed high on the agenda of such a commission or a similar pooling of experts should be done for this state to tackle and resolve the regional problems as soon as possible.

We appreciate the opportunity to appear here today and present our views. We are willing to entertain any questions.

09/29/88

1978-87 State Summary of Crop Insurance in Georgia
By Year/ with Loss & Farmers' Benefit Cost Ratios
Potential Acres for 1987
Combined Operations (FCIC & RPCI)

Crop	Yr	Protection In Force $(000s)	Acres Insured (000s)	Total Premium $(000s)	Farmers' Premium $(000s)	Losses Paid $(000s)	Loss Ratio	Farmers' Benefit Cst.Ratio	Potential Acres (000)	%Pot Acres Insured
Georgia	78	30,322	59	1,219	1,219	547	0.45	0.45		
Georgia	79	33,778	73	1,409	1,409	1,147	0.81	0.81		
Georgia	80	59,140	206	3,038	3,038	16,433	5.41	5.41		
Georgia	81	336,259	1,005	22,956	17,210	57,149	2.49	3.32		
Georgia	82	367,659	2,212	27,170	20,379	35,186	1.30	1.73		
Georgia	83	220,633	1,197	16,648	12,487	31,677	1.90	2.54		
Georgia	84	232,582	1,134	17,581	13,187	15,996	0.91	1.21		
Georgia	85	210,507	967	16,607	12,456	25,393	1.53	2.04		
Georgia	86	200,463	778	12,966	9,728	55,737	4.26	5.68		
Georgia	87	263,531	876	15,273	11,455	31,706	2.08	2.77	3550	0.25
Grand Total		1,954,874	9,307	134,867	102,576	270,471	2.01	2.64		

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ENERGY AND AGRICULTURE

FIELD HEARING
TIFTON, GEORGIA
OCTOBER 3, 1988

HONORABLE CHARLES HATCHER
CHAIRMAN

"PARTICIPATION IN THE FEDERAL CROP INSURANCE PROGRAM"

TESTIMONY OF:

TED B. WALLER
ROUTE 3, BOX 741
BLAKELY, GEORGIA 31723

The testimony I have prepared is based on seven (7) years experience with the Federal Crop Insurance Program. I have farmed, been an Agent and am presently involved in the sales and service sector of the Crop Insurance industry.

The Crop Insurance Act of 1980 was a necessary change that started providing disaster relief to the individuals who actually qualified for assistance. It also required the producers to pay a premium for the protection he received.

This method of disaster relief was more acceptable to the non farm taxpayers, who in the past had felt any type disaster payments were "bail outs" or "giveaways".

This program can be stabilized to offer realistic guarantees that are affordable. When this is accomplished it will not only stabilize the individual farm operation but will stabilize the entire agri-business industry.

If the producer is offered protection that will cover NORMAL production cost for a premium that is affordable, participation will increase beyond all expectations. Production cost protection will prevent many bankruptcies, enable the producer to repay the crop loans and be able to operate without carrying crop loan balances forward. Many crop loss debts have been added to existing real estate loans.

Crop Insurance protection will also protect banks, farm supply dealers, equipment dealers and the entire farm credit system.

An effective program will also protect the economy of many rural towns that depend upon the agricultural sector for their existence.

The 1980 Crop Insurance Act placed into operation a plan that would use the private sector to market and service the program. The Federal Crop Insurance Corporation maintains the responsibility for establishing rates and rules. FCIC also has the responsibility to monitor the private sector as well as develop programs for other crops not presently being insurable.

The private sector has, in place, adequate sales agents to deliver the program to the American farmer.

The private companies have their data processing centers programed to handle the workload in case of a severe natural disaster such as the 1988 drought. They have effective training programs in place to assure reliable sales agents are delivering the program.

Trained and qualified independent Loss Adjustment Contractors are in place and are capable of handling disaster areas.

The Crop Hail Insurance Actuarial Association (CHIAA) and the National Crop Insurance Association (NCIA) are doing an excellent job of providing reinsurance companies, agents, and adjusters with updated program information and procedures.

The most effective method of marketing and servicing the Crop Insurance Program is in place.

Program participation has been hampered for several reasons which I will attempt to explain.

The general provisions and the special provisions of the crop policies have basically remained constant since 1981.

The loss adjustment procedures have also remained basically the same since 1981.

However, FCIC has made repeated changes in procedures that directly effects the method of calculating guarantees and unit division guidelines. Transitional Yield (T-Yield) factors have been implemented on corn, grain sorghum, soybeans, cotton and small grains. We have gone from the area coverage and optional Individual Yield Coverage (IYC) to the Actual Production History (APH) concept. Numerous procedural changes have been implemented within the APH concept.

All of these changes have required extensive agent training, adjustor training, staff training and computer reprograming.

Each year we have received the new program later and later from FCIC. In the southeast, the closing sales deadline for major springseeded crops is March 31st.

Due to the late delivery of the program by FCIC agent training schools are not held until late January. At best, Agents have only about 60 days to deliver the program to the producers.

The repeated changes dictated by FCIC requires the Agent to practically resell the existing insureds rather than review their coverage. This has severely limited each Agent in soliciting new insureds and increasing participation.

Normally, farmers are planning their operations and applying for operating loans during November and December. Current crop insurance information has not been available during this period.

Basically familiar with the constant changes, both insureds and lenders have been hesitant to base their loans on the previous years rates and rules. This point alone has denied the insured and lender the use of crop insurance as a risk management tool.

The crop insurance policy is a continuous contract and continues from year to year unless cancelled by the insured. Shouldn't the insured be entitled to expect a consistent program from year to year?

For 1989, FCIC management has elected to FREEZE the program with rates and rules as they were in 1988. My only reservation is that the freeze was imposed after so many negative programs were in effect.

The two (2) most negative programs in the southeast is cotton and soybeans (in the 13 southeastern states only).

FCIC has discouraged soybeans producers in the 13 southeastern states by increasing premium rates on two occasions and changing the unit division guidelines to allow only (1) unit per county regardless of the number of ASCS farms or how the producer maintains his operation.

Prior to this change in Georgia we had a 60% producer participation. Within two (2) years we only had approximately 19% participation. We lost our better soybean producers. In addition, in 1988 FCIC further reduced the T-Yields in the southeastern states by as much as 45%. See Exhibit "D".

I feel these changes were made without regard to program participation, especially increasing participation.

Cotton - In 1988 FCIC issued a T-Yield factor for each county. This factor must be applied to the ASCS program yield to use as the producers yield for any year in the 10 year base period for which he didn't plant cotton. This was especially negative for the new producer or the producer with only two (2) or three (3) year production history. The factor ranged from 24% to 75% with most counties ranging from 45% to 60%.

Exhibit "A" is a copy of the Georgia T-Yield factor table.

Exhibit "B" is an example of how the factor effected the guarantee for cotton.

This change caused many existing insureds to cancel their coverage for 1988 and made it almost impossible to sell new insureds.

As you are aware, we have had a considerable increase in planted acres of cotton in the last few years. Yet, we have been unable to increase producer participation. Not because the Agents have not presented the program, not because the producers and lenders were not interested in protection but because the protection we offered did not offer the producer realistic protection. In cases where we did find interest the premium cost was prohibitive.

Again, I feel the cotton factor was implemented without due consideration for program participation.

Many producers have not participated in the program because they felt that should a disaster occur there would be some type disaster bill implemented without having to pay a premium. This idea has been reinforced in 1986 and again in 1988. Many

insured farmers feel they have been penalized because they had crop insurance. They did not receive as much disaster benefits as the producer who elected not to protect himself.

It appears that FCIC rates and rules are being changed based on budget pressure and trying to achieve a premium/loss ratio balance.

Crop Insurance is no different from any other insurance; participation is the key to success. However, the nature of crop insurance is such that being profitable is impossible. If so, we would not need a FEDERAL program.

If guarantees were based on ASCS program yields we would see a larger percentage of producers insuring their crops. ASCS yields are based on the individual farm or area capacity to produce that crop. Insuring up to 75% of that established yield would not be unrealistic. FCIC Underwriters working with the local ASCS and Soil Conservation Service representatives could establish base yields for each crop not already having an established yield. Crops such as soybeans could have established yields based on the same method as corn, grain sorghum or cotton. If this were accomplished all Agencies of the USDA would be using the same yields and would allow for a consistent program from year to year. Crop Insurance base yields would be consistent and would allow statistical data to be accummulated on which to base future premium rates.

A basic premium would have to be established. This rate would have to be reasonable enough that with the normal yield the producer would have an affordable premium.

As with other types of insurance protection the producers should be allowed to earn premium discounts after several years of favorable experience and low loss ratios.

Likewise, insureds who have repeated losses and high loss ratios should be surchanged after two consecutive loss years. This surcharge should be reasonable to begin with and if losses continue to occur, should become more severe. The surcharge would serve two purposes. One, the insured would be paying increased premium because he was receiving benefits from the program and after several loss years would cause a good manager to look at the possibility of alternative crops. Second, it would over a period of time eliminate the insured who was abusing the program.

Another positive method to promote increased participation would be cooperation between ASCS and FCIC, cooperation similar to the ASCS and the Soil Conservation Service regarding the Swampbuster-Sodbuster Bill. ASCS has educated the producers to the fact that this bill is for real and ASCS program benefits will be in jeopardy unless they have complied with the Soil Conservation Service requirements.

A positive signal that no disaster aid would be available if you have not attempted to protect yourself through the Federal Crop Insurance Program should be made.

This can become a program that will provide realistic protection to the American farmer, the Agri-business community and stabilize the rural economy of this nation.

I appreciate the opportunity to submit this testimony to your committee and I will be glad to assist you in anyway to achieve the goals of the 1980 Federal Crop Insurance Act.

10/27/87 EXHIBIT "A" Page 1 of 4

TRANSITIONAL YIELD FACTOR TABLE
1988 and Succeeding Crop Years

Crop: 21 COTTON
State: 13 GEORGIA

COUNTY	PRACTICE(S)	TYPE(S)	TRANSITIONAL YIELD FACTOR	MAXIMUM TRANSITIONAL YIELD
Cotton Transitional Yields are on a solid-planted basis.				
007 BAKER	002 003		0.55	789
009 BALDWIN	002 003		0.59	352
*013 BARROW	002 003			
015 BARTOW	002 003		0.51	501
017 BEN HILL	002 003		0.49	585
019 BERRIEN	002 003		0.43	541
023 BLECKLEY	002 003		0.60	594
027 BROOKS	002 003		0.61	873
029 BRYAN	002 003		0.50	328
031 BULLOCH	002 003		0.45	501
033 BURKE	002 003		0.56	657
037 CALHOUN	002 003		0.61	939
043 CANDLER	002 003		0.53	526
055 CHATTOOGA	002 003		0.51	611
061 CLAY	002 003		0.66	789
069 COFFEE	002 003		0.42	382
071 COLQUITT	002 003		0.54	739
075 COOK	002 003		0.52	766
079 CRAWFORD	002 003		0.64	573
081 CRISP	002 003		0.63	640
087 DECATUR	002 003		0.74	940
091 DODGE	002 003		0.56	621

10/27/87

TRANSITIONAL YIELD FACTOR TABLE
1988 and Succeeding Crop Years

Crop: 21 COTTON
State: 13 GEORGIA

COUNTY	PRACTICE(S)	TYPE(S)	TRANSITIONAL YIELD FACTOR	MAXIMUM TRANSITIONAL YIELD
Cotton Transitional Yields are on a solid-planted basis.				
093 DOOLY	002 003		0.59	726
099 EARLY	002 003		0.57	819
101 ECHOLS	002 003		0.69	907
105 ELBERT	002 003		0.54	550
107 EMANUEL	002 003		0.52	522
115 FLOYD	002 003		0.59	546
125 GLASCOCK	002 003		0.68	510
131 GRADY	002 003		0.42	631
*141 HANCOCK	002 003			
*145 HARRIS	002 003			
147 HART	002 003		0.49	426
151 HENRY	002 003		0.66	612
153 HOUSTON	002 003		0.54	597
155 IRWIN	002 003		0.57	678
157 JACKSON	002 003		0.48	397
159 JASPER	002 003		0.61	510
163 JEFFERSON	002 003		0.55	526
165 JENKINS	002 003		0.53	550
167 JOHNSON	002 003		0.50	522
171 LAMAR	002 003		0.54	871
173 LANIER	002 003		0.45	520
175 LAURENS	002 003		0.56	465

10/27/87

TRANSITIONAL YIELD FACTOR TABLE
1988 and Succeeding Crop Years

Crop: 21 COTTON
State: 13 GEORGIA

COUNTY	PRACTICE(S)	TYPE(S)	TRANSITIONAL YIELD FACTOR	MAXIMUM TRANSITIONA YIELD
Cotton Transitional Yields are on a solid-planted basis.				
177 LEE	002 003		0.58	536
185 LOWNDES	002 003		0.56	816
189 MCDUFFIE	002 003		0.49	561
193 MACON	002 003		0.54	655
201 MILLER	002 003		0.52	637
205 MITCHELL	002 003		0.46	656
209 MONTGOMERY	002 003		0.59	519
211 MORGAN	002 003		0.59	561
217 NEWTON	002 003		0.60	567
219 OCONEE	002 003		0.54	622
221 OGLETHORPE	002 003		0.44	384
225 PEACH	002 003		0.59	694
233 POLK	002 003		0.49	513
235 PULASKI	002 003		0.55	699
239 QUITMAN	002 003		0.65	835
243 RANDOLPH	002 003		0.55	714
245 RICHMOND	002 003		0.47	316
249 SCHLEY	002 003		0.60	346
251 SCREVEN	002 003		0.65	697
253 SEMINOLE	002 003		0.60	736
259 STEWART	002 003		0.48	624
261 SUMTER	002 003		0.52	553

10/27/87

TRANSITIONAL YIELD FACTOR TABLE
1986 and Succeeding Crop Years

Crop: 21 COTTON
State: 13 GEORGIA

COUNTY	PRACTICE(S)	TYPE(S)	TRANSITIONAL YIELD FACTOR	MAXIMUM TRANSITIONAL YIELD
Cotton Transitional Yields are on a solid-planted basis.				
*263 TALBOT	002 003			
267 TATTNALL	002 003		0.75	877
269 TAYLOR	002 003		0.65	619
271 TELFAIR	002 003		0.56	534
273 TERRELL	002 003		0.60	636
275 THOMAS	002 003		0.59	841
277 TIFT	002 003		0.64	894
279 TOOMBS	002 003		0.65	549
283 TREUTLEN	002 003		0.45	478
287 TURNER	002 003		0.58	759
289 TWIGGS	002 003		0.50	559
297 WALTON	002 003		0.45	412
301 WARREN	002 003		0.24	268
303 WASHINGTON	002 003		0.52	597
305 WAYNE	002 003		0.39	561
307 WEBSTER	002 003		0.50	570
309 WHEELER	002 003		0.55	597
315 WILCOX	002 003		0.59	630
317 WILKES	002 003		0.54	639
321 WORTH	002 003		0.59	642

* Any individual wishing a transitional yield in this county must submit an actuarial request for coverage establishment to the appropriate RMO of FCIC.

PREPARED BY FCIC RMO

EXHIBIT "B"

Cotton yield and premium calculation for 1987 and 1988 using the same farm, practice (irrigated), level of coverage and price election. This is a NEW producer.

1987

The FCIC Field Underwriting Office set the approved APH yield in 1987 as per attachment one (1) of this exhibit.

657#	APH Yield
x 75%	Level of Coverage
493#	Guarantee/Acre
x .55	Price Election
$271.15	
x 15%	Subsidized Premium Rate
$ 40.67	Subsidized Premium

1988

541#	ASCS Program yield (attachment two (2) this exhibit)
x .61	Factor from Exhibit "A"
330#	APH Yield
x 75%	Level of Coverage
248#	Guarantee/Acre
x .55	Price election
$136.40	
x 30.4%	Subsidized Premium Rate
$ 41.47	Subsidized Premium

This example should give you an explanation of why agents cannot increase cotton producer participation.

ATTACHMENT 1 for EXHIBIT "B"

FCI-19-A (APH) (Rev. 6-86) AA UN A

STATES DEPARTMENT OF AGRICULTURE
Federal Crop Insurance Corporation

1987 CROP YEAR

ACTUAL PRODUCTION HISTORY

See reverse side of form for statement required by the Privacy Act of 1974
We reserve the right to correct errors made in computations

05/20/87

REQUIRED FIELD REVIEW ☐

26. CONTRACT NUMBER: 10777

2. COUNTY: 037 Calhoun

3. STATE: 13 GEORGIA

1. PRODUCER'S NAME AND ADDRESS

SSN 260641194

24. AGENT NAME AND ADDRESS

AGENT CODE 09005115
OSS AGENCY, INC.

6. CROP 21 Cotton
9. PRACTICE 002 Irrigated
TYPE

5. OTHER ENTITIES

10. SECTION LEGAL DESCRIPTION
TWNSHP
RANGE
Land Other County ☐ Yes ☐ No

7. ASCS FARM NO 96025 NEW # 358
8. UNIT 1

22. RECORD TYPE
A. ☐ Production sold or in commercial storage.
B. ☐ On farm storage-recorded bin measurement.
C. ☐ Livestock feeding records. D. ☐ Appraisal.
E. ☐ ASCS loan records. F. ☐ Other.

23. ASCS ESTAB YLD
TRANSITIONAL YLD

11. CROP YEAR	12. YIELD	13. ADJUSTED YIELD	14. ACRES
1976	465.0	465.0	ASSGNED
1977	324.0	324.0	ASSGNED
1978	787.0	787.0	ASSGNED
1979	686.0	686.0	ASSGNED
1980	471.0	471.0	ASSGNED
1981	563.0	563.0	ASSGNED
1982	851.0	851.0	ASSGNED
1983	599.0	599.0	ASSGNED
1984	897.0	897.0	ASSGNED
1985	923.0	923.0	ASSGNED
	15. TOTAL 6566		

16. ACTUAL YIELD 17. ADJUSTED YIELD 18. YIELD INDEX

20. ITEM 15 ÷ 19 8 or 10 YEARS PRELIMINARY YIELD
6566 ÷ 10 =

19. TOTAL PRODUCTION ÷ PLANTED ACRES = AVERAGE YIELD

21. APPROVED APH YIELD 1987
657 5.20

6. CROP
9. PRACTICE
TYPE

5. OTHER ENTITIES

10. SECTION LEGAL DESCRIPTION
TWNSHP
RANGE
Land Other County ☐ Yes ☐ No

7. ASCS FARM NO
8. UNIT

22. RECORD TYPE
A. ☐ Production sold or in commercial storage.
B. ☐ On farm storage-recorded bin measurement.
C. ☐ Livestock feeding records. D. ☐ Appraisal.
E. ☐ ASCS loan record. F. ☐ Other.

23. ASCS ESTAB YLD
TRANSITIONAL YLD

11. CROP YEAR	12. YIELD	13. ADJUSTED YIELD	14. ACRES
	15. TOTAL		

16. ACTUAL YIELD 17. ADJUSTED YIELD 18. YIELD INDEX

20. ITEM 15 ÷ 19 8 or 10 YEARS PRELIMINARY YIELD
= ÷ =

19. TOTAL PRODUCTION ÷ PLANTED ACRES = AVERAGE YIELD

21. APPROVED APH YIELD

ATTACHMENT 2 for EXHIBIT "B"

(PLEASE READ THE REVERSE OF THIS NOTICE)

NOTICE OF ACREAGE BASES, YIELDS, ALLOTMENTS, AND/OR QUOTAS

CALHOUN COUNTY ASCS OFFICE
HWY 37
BOX 66
MORGAN, GA 31766

ASCS-476
(05-28-87)

CROP YEAR: 1988	MAILING DATE: 12/04/87	FINAL DATE FOR APPEAL/REVIEW →	END OF SIGNUP	FARM

CROP	PROGRAM YIELD --NI--	PROGRAM YIELD --IR--	ACREAGE BASE	REMARKS
Wheat	4[illegible]	[illegible]	[illegible]	
Corn	[illegible]	[illegible]	[illegible]	
Grain sorghum	[illegible]	[illegible]	[illegible]	
Upland cotton	541		[illegible]	
Sum of CAR's			476.[illegible]	

OPERATOR
OWNER
FARM NUMBER 358
CROPLAND [illegible].6
FARM IDENTIFIER NONE

NAME AND ADDRESS OF OPERATOR/PAYEE

This is a copy of the 1988 ASCS-476 for FSN-358
The Cotton program yield is 541 #.
The County factor is .61 from exhibit "A"

EXHIBIT "C"

The following is a list of cotton loss-ratio for Georgia from 1981 through 1987.

YEAR	ACRES INSURED	LESS-RATIO
1981	63,000	3.76*
1982	51,000	.61
1983	28,000	2.66*
1984	33,000	.08
1985	53,000	.17
1986	47,000	4.05*
1987	88,000	.62

*These were disaster years.

The program participation for cotton is concentrated in two (2) major areas. In recent years a renewed interest has been shown in cotton production in South Georgia. Millions of dollars have been invested in gins and harvesting equipment. Yet, we have been unable to attract these new producers because of unrealistic protection and high premium cost.

If these new producers and new areas could be enrolled in the program the risk would be spread over a much broader area of the state.

By achieving the spread of risk over the broader area the chance of high loss-ratios would be considerably lower.

The renewed interest in cotton production gives us a large marketing area across the entire state rather than a few concentrated areas.

EXHIBIT "D"

STATISTICAL DATA FOR GEORGIA SOYBEANS

YEAR	ACRES INSURED	LOSS-RATIO	STATE AVERAGE YIELD
1981	1,016,000	3.27	19 Bu.
1982	1,193,000	1.62	27 Bu.
1983	656,000	1.93	21 Bu.
1984	535,000	1.51	20 Bu.
1985	389,000	2.98	24 Bu.
1986	268,000	4.35	18 Bu.
1987	225,000	1.53	N/A

The contrast between the state average yield and the loss-ratio clearly indicates we have insured the low yield producers and/or marginal land. Radical program changes have caused our better soybean producers to elect not to insure their crop.

Do you feel rate increases, guarantee reductions and unit guideline restrictions was the best method to attract those high yield producers?

Realistic guarantees, affordable premium rates and a consistant program will bring the better producers into the program.

EXHIBIT "E"

PEANUTS - STATE OF GEORGIA

YEAR	ACRES INSURED	LOSS-RATIO
1981	250,000	.98
1982	181,000	.77
1983	187,000	2.42*
1984	256,000	.34
1985	258,000	.64
1986	278,000	4.58*
1987	373,000	2.65*

*Severe drought years.

Peanut guarantees are established by the FCIC Underwriters. They are on a producer listing in the Agents Actuarial.

The guarantees offer realistic protection of production cost and the premium is affordable.

Notice the participation rate. In Georgia we had a 59% participation rate in 1987.

The insured acreage has increased every year since 1982 with less than 100% loss-ratio except for three (3) severe drought years.

STATEMENT OF STRICK McDANIEL

Testimony on Crop Insurance Before
Congressman Charles F. Hatcher, 2nd District, GA.
Congressman Richard Ray, 3rd District, GA.
Tifton, GA. - October 3, 1988

I. Introduction:

I am Strick McDaniel of McDaniel and Sons Insurance Agency from Adel, Georgia.

Today I'm speaking as a multi-line insurance agent writing Multiple Peril Crop Insurance. I represent an agency which has been in business since 1960 and I have been a multi-line agent since 1970.

II. Overview:

My purpose in being here is to help identify problems with the crop insurance program as it relates to the insurance agent and to offer some ideas that I believe will help the program.

III. Problems and Solution Ideas:

1. Problem: A) Complexity of the program.
   B) Complicated ratings.
   C) Too much information and paperwork required to rate coverage.

   Solution Idea: If a farmer is already in the crop insurance program, he should retain the same rate as in the previous year. A new farmer should be rated by area of the county, soil type, or other simplified forms of ratings. By using these ideas, we would be able to avoid obtaining so much paperwork from the county ASCS office.

2. Problem: Constant changes in the program.

   Solution Idea: These changes from year to year make it difficult for the agent to keep the farmer informed and should be kept to a bare minimum. The agent should be notified timely of all changes.

3. Problem: Inadequate Coverage. Coverage is far less than the cost of production. In some cases, a farmer's actual production history is not a true reflection of his APH because disaster years are included in his actual production history which will lower his coverage.

   Solution Idea: Disaster years should be dropped from the actual production history to reflect his true yield.

4. Problem: Coverage for a first-time producer of a crop is too low (Example: In the event of a total loss in 1988, a first-time cotton producer in Cook County, Georgia would be paid approximately $176.00 per acre. The cost of production established by the Cooperative Extension Service for one acre is $426.00. This represents a deficiency of $250.00 per acre using the 65% level of coverage).

   Solution Idea: The method for establishing first-time producer coverage should be reviewed and corrected to more adequately cover the producer's cost in the crop.

5. Problem: Uneven rating subsidy.

   A) Present premium subsidy encourages a farmer to take a lower coverage.
   B) At this time, the lower coverage levels offer the maximum subsidy.

   Solution Idea: All levels of coverage should have the same subsidy percentage. This would eliminate confusion in explaining the difference in premium between levels to the farmer. This would not discourage the farmer from purchasing the higher levels of coverage.

IV. General Discussion:

1. Market Based Price Elections - I would like to encourage more use of market based price elections. This will likely produce a more realistic price for crops at the time of harvest. For instance, this year the market price at the time of harvest for corn and soybean is likely to be greater than the maximum price election for 1988 as market based price elections were not available.

2. Large amounts of peanut acreage have been insured in recent years primarily because the coverage has been adequate and premiums have been reasonable. Insured acreages on some other crops, such as corn and soybean, have dwindled primarily because of low coverage guarantees and high premium cost. This indicates to me that if a reasonable coverage amount and premium is used, farmers will purchase this insurance.

V. Summary:

As a multi-line insurance agent, I have the opportunity to compare the time I spend in handling the farmer's crop insurance to his other types of insurance. I estimate that it takes as much, if not more, time to handle a single crop insurance policy than all his other insurance combined. My point is that the crop insurance program is too complicated and requires too much paperwork and time for both the farmers and myself.

I believe that crop insurance is a good program overall and has served many farmers well through the years. However, I think that with some changes, such as the ones I have suggested today, it will be more appealing to all involved and better serve the farmer's needs.

TESTIMONY OF FEDERAL CROP INSURANCE

KENNETH J. HUNNICUTT

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MOULTRIE, GEORGIA

TESTIMONY ON FEDERAL CROP INSURANCE

HAVING BEEN INVOLVED IN AGRICULTURE FINANCE FOR THE PAST 28 YEARS IT IS A PLEASURE TO SHARE SOME IDEAS WITH FEDERAL OFFICIALS FOR THE FIRST TIME.

OUR HOLDING COMPANY AND SUBSIDIARY BANKS HAVE A REAL COMMITMENT TO FINANCING THE FAMILY FARMER AS THEY ARE A MAJOR PART OF OUR ECONOMY IN EACH OF OUR TRADE AREAS. WITH THIS COMMITMENT OUR FARM FINANCE REPRESENTATIVES SEEK NEW AND INNOVATIVE WAYS TO KEEP THE FARMER ON THE LAND. WE HAVE WATCHED MANY OF THEM LEAVE THE FARM FOR THE PAST 10-15 YEARS FOR A MORE STABLE INCOME STREAM. WE REALIZE THAT THE LACK OF MANAGMENT ABILITY AND, IN MANY CASES, WORK ETHICS CAUSED A LARGE PERCENTAGE OF THE PROBLEMS.

AFTER CAREFUL REVIEW OF THE FEDERAL CROP INSURANCE PROGRAM BY OUR AGRI-FINANCE TEAM WE SEE A PROGRAM THAT IS NOT VERY ATTRACTIVE TO OUR LOCAL FARMERS WITH THE EXCEPTION OF PEANUTS. FOR ALL OTHER COMMODITIES GROWN IN OUR AREA IT SEEMS TO BE VERY DIFFICULT TO COST JUSTIFY FEDERAL CROP INSURANCE. LET ME SHARE WITH YOU A FEW OF THESE PROBLEMS (LIST ATTACHED).

IT IS OUR BELIEF THAT A STUDY COMMITTEE OF FARMERS, AGRI-FINANCIERS, FEDERAL CROP INSURERS AND LEGISLATIVE REPRESENTATIVES BE FORMED TO FORMULATE A MORE COMPATABLE PROGRAM FOR THE QUALIFIED PRODUCERS.

STRONG EMPHASIS SHOULD BE PLACED ON REMOVAL OF THE PRODUCER THAT INSURERS FOR PROFIT ONLY WITH NO DEDICATION TO PRODUCING MAXIMUM YIELDS.

YIELD ACCOUNTING SEEMS TO BE A MAJOR PROBLEM FOR THIS PROGRAM. HOWEVER, WITH A PROTECTIVE FEDERAL CROP INSURANCE PROGRAM FOR THE FINANCING INSTITUTION IT APPEARS TO US THAT RECORDS COULD BE PRODUCED BY THE INSTITUTION TO HELP CONTROL THE ABUSE AND TO ELIMINATE THE NON PRODUCER. THIS SHOULD KEEP THE COST OF THE PROGRAM AT AN AFFORDABLE LEVEL AND CREATE A WORKING PARTNERSHIP WITH THE FARMER, FINANCIER, AND FEDERAL CROP INSURERS.

WITH THE RISK FACTORS INVOLVED IN AGRI FINANCING THE FINANCIER HAS TO HAVE ASSURANCE OF REPAYMENT OF OPERATING LOANS. A CROP INSURANCE PROGRAM THAT IS EQUITABLE TO ALL PARTIES WOULD APPEAR TO BE THE BEST APPROACH RATHER THAN A HODGE PODGE OF INSURANCE, LOW INTEREST LOANS, AND GRANTS.

WE COMMEND YOU FOR ALLOWING IMPUT INTO THIS PROBLEM AND ASSURE YOU THAT WE WILL SUPPORT AN EQUITABLE PROGRAM TO KEEP THE QUALIFIED PRODUCER ON THE LAND.

THANKS FOR ALLOWING US TO SPEAK TO YOU.

1. BANK CUSTOMERS CITE THE COST OF FEDERAL CROP INSURANCE IN RELATION TO THE COVERAGE AVAILABLE AS THE PRIMARY REASON FOR NOT PARTICIPATING IN THE PROGRAM. (THE EXCEPTION BEING PEANUTS.)
2. PRODUCERS HAVE INDICATED THAT THE CURRENT STRUCTURE FAVORS THE POOR OR INEFFICIENT PRODUCER OVER THE HIGHLY EFFICIENT PRODUCER.
3. CROP INSURANCE PREMIUMS SHOULD REFLECT INCENTIVES FOR THE LOW RISK OPERATOR AND PENALITIES FOR HIGH RISK PRODUCERS.
4. SYSTEM NEEDS UNIFORM STANDARDS FOR YIELD DETERMINATION AND RECORD RETENTION.
5. INCREASED PARTICIPATION COULD BE ENCOURAGED BY OFFERING HIGH PERCENTAGE COVERAGE, I.E., 75%, 85%, 95%, AS OPPOSTED TO CURRENT 50%, 60%, 75%.
6. PROTECTION SHOULD INCLUDE SERVING OF CURRENT INTERMEDIATE TERM DEBT. NOT CARRY OVER DEBT.

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